SASKENERGY INCORPORATED
AND
SUBSIDIARIES

FINANCIAL STATEMENTS

December 31, 2002

SASKENERGY INCORPORATED AND SUBSIDIARIES

FINANCIAL STATEMENTS

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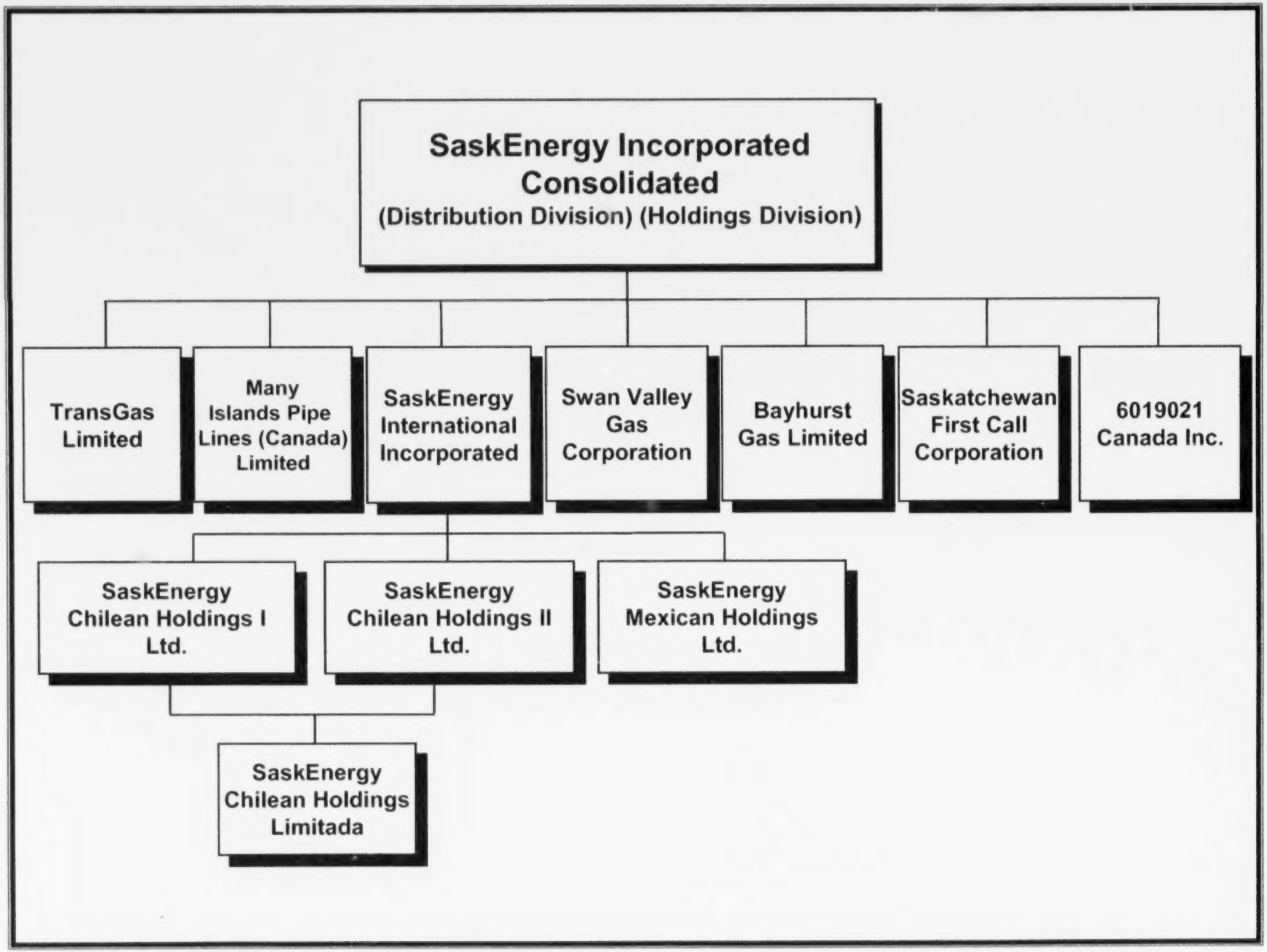
Deloitte
& Touche


SaskEnergy Incorporated
Consolidated
(Distribution Division) (Holdings Division)
TransGas Limited
Many Islands Pipe Lines (Canada) Limited
SaskEnergy International Incorporated
Swan Valley Gas Corporation
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Saskatchewan First Call Corporation
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103-04297/

SASKENERGY INCORPORATED

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002

Deloitte & Touche

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Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the consolidated statement of financial position of SaskEnergy Incorporated as at December 31, 2002 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Canada
February 4, 2003

Deloitte Touche Tohmatsu

SASKENERGY INCORPORATED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	Note	2002	2001
		(thousands)	
ASSETS			
CURRENT ASSETS			
Cash		$ 1,831	$ -
Accounts receivable		119,507	145,711
Natural gas in storage	3	105,618	97,800
Inventories of supplies		5,329	5,311
Prepaid expenses		-	36,506
		232,285	285,328
PROPERTY, PLANT AND EQUIPMENT	5	1,025,266	1,018,687
INVESTMENTS AND OTHER ASSETS	6	29,652	26,797
NATURAL GAS IN STORAGE	3	28,340	30,590
TOTAL ASSETS		$ 1,315,543	$ 1,361,402
LIABILITIES AND PROVINCE'S EQUITY			
CURRENT LIABILITIES			
Bank indebtedness		$ -	$ 678
Short-term debt	7	173,200	218,192
Accounts payable		121,037	129,271
Dividend payable		4,460	-
Current portion of long-term debt	7	4,040	4,040
		302,737	352,181
CUSTOMER CAPITAL CONTRIBUTIONS	8	104,087	97,190
LONG-TERM DEBT	7	614,555	619,531
TOTAL LIABILITIES		1,021,379	1,068,902
PROVINCE OF SASKATCHEWAN'S EQUITY			
Equity advances	9	71,531	71,531
Retained earnings	4	223,373	220,969
Foreign currency translation adjustment	6	(740)	-
TOTAL EQUITY		294,164	292,500
		$ 1,315,543	$ 1,361,402
COMMITMENTS AND CONTINGENCIES	10		

(See accompanying notes)

On behalf of the Board:

M Simm, Director

Emmett Hardy, Director

SASKENERGY INCORPORATED

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31

	Note	2002	2001
		(thousands)	
REVENUE			
Delivery revenue		$ 166,870	$ 155,118
Transportation and storage revenue		68,588	69,663
Net sales from gas marketing	12	14,552	38,531
Revenue collected for municipalities	11	22,598	22,152
Other		4,656	6,109
		277,264	291,573
EXPENSES			
Operating and maintenance		111,798	109,592
Interest	7	52,136	53,316
Amortization of property, plant and equipment		50,265	49,702
Payments to municipalities	11	22,598	22,152
Saskatchewan taxes and royalties	13	9,021	10,848
Total expenses		245,818	245,610
Net earnings from operations before the following		31,446	45,963
Commodity revenue		377,276	310,507
Cost of gas sold	4	401,858	371,847
Loss from commodity sales		(24,582)	(61,340)
Net earnings (loss)		6,864	(15,377)
Retained earnings, beginning of year		220,969	236,346
Dividend		(4,460)	-
Retained earnings, end of year		$ 223,373	$ 220,969

(See accompanying notes)

SASKENERGY INCORPORATED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

	Note	2002	2001
		(thousands)	
OPERATING ACTIVITIES			
Net earnings (loss)		$ 6,864	$ (15,377)
Add (deduct) items not requiring an outlay of cash			
Amortization of property, plant and equipment		50,265	49,702
Amortization of customer capital contributions		(2,749)	(2,576)
Other non-cash items		1,674	921
		56,054	32,670
Net change in non-cash working capital related to operations	14	46,640	(87,796)
Cash provided by (used in) operating activities		102,694	(55,126)
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(56,844)	(57,913)
Additions to investments and other assets		(5,269)	(12,385)
Customer capital contributions received		9,646	5,050
Decrease in natural gas in storage (non-current)		2,250	1,659
Cash used in investing activities		(50,217)	(63,589)
FINANCING ACTIVITIES			
Increase (decrease) in short-term debt		(44,992)	218,192
Repayment of long-term debt		(4,976)	(233,921)
Proceeds from long-term debt		-	140,000
Dividend paid		-	(7,410)
Cash (used in) provided by financing activities		(49,968)	116,861
INCREASE (DECREASE) IN CASH during year		2,509	(1,854)
CASH POSITION (BANK INDEBTEDNESS), beginning of year		(678)	1,176
CASH POSITION (BANK INDEBTEDNESS), end of year		$ 1,831	$ (678)

Cash position consists of cash less bank indebtedness.

(See accompanying notes)

SASKENERGY INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002

1. STATUS OF THE CORPORATION

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan provincial Crown corporation operating under authority of **The SaskEnergy Act**. SaskEnergy's primary business is the transportation, distribution and storage of natural gas in Saskatchewan.

By virtue of **The Crown Corporations Act, 1993**, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC.

As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policies are considered to be significant:

a. Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, 6019021 Canada Inc., Bayhurst Gas Limited, Many Islands Pipe Lines (Canada) Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated, SaskEnergy Chilean Holdings I Ltd., SaskEnergy Chilean Holdings II Ltd., SaskEnergy Mexican Holdings Ltd., Swan Valley Gas Corporation, and TransGas Limited. In addition, the accounts also include the Corporation's 100 per cent ownership interest in SaskEnergy Chilean Holdings Limitada, a Chilean limited partnership. Separate audited financial statements are prepared for each of these entities.

b. Investments

The Corporation accounts for its investments in Gas Sur S.A. and Igasamex USA Ltd. using the equity method and the cost method respectively.

c. Foreign currency translation adjustment

The Corporation's foreign investment in Chile is self-sustaining. The financial statements of the foreign investment are translated from Chilean pesos into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the Chilean peso and the Canadian dollar are reflected in the foreign currency translation adjustment in the Province of Saskatchewan's Equity.

d. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at the lower of average cost or replacement cost.

e. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in income for the current period.

Other asset retirements are recorded by reducing the account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Transmission and storage	2.5 to 2.6
Distribution	2.5 to 3.5
Gathering, treatment and compression	2.5 to 3.5
Vehicles, equipment and other	2.5 to 50.0

The royalty interest in certain natural gas wells is amortized on the unit of production method.

f. Natural gas in storage

Natural gas in storage (both current and non-current) is stated at cost. Natural gas removed from storage is accounted for on an average cost basis.

g. Gas cost variance account

For rate setting purposes, SaskEnergy's approved selling price for natural gas is based on the principle that it neither profits from nor incurs a loss on sale. Therefore, the Corporation established a Gas Cost Variance Account (GCVA) to accumulate differences between commodity revenue and the cost of gas sold. Subject to approval of the Government of Saskatchewan, balances accumulated in the GCVA are either recovered from or refunded to customers through future rates. Amounts over-recovered or under-recovered during the year are reported as a gain or loss from commodity sales.

Where the cost of gas sold exceeds commodity sales revenue, the Government of Saskatchewan may, at its discretion, elect to not increase SaskEnergy's rates to recover the shortfall.

h. Competitive gas sales

Where the Corporation purchases natural gas in the open market at a fixed purchase price and simultaneously enters into agreements to sell this natural gas at a fixed selling price, the gain or loss is recorded at the time the transaction is settled.

In addition, the Corporation may enter into contracts that require either the physical delivery (sale) or receipt (purchase) of gas in a future period. Contracts may be structured so that the settlement price is determined in the future at the time of delivery or receipt. Changes in the value of the contract due to a change in market prices up to the date of settlement are recorded as gains or losses in the period of change.

i. Hedge accounting

The Corporation uses various derivative financial instruments to hedge its operating exposures to fluctuations in foreign currency exchange rates, interest rates and natural gas costs. A Corporate Derivatives Policy and specific hedging strategies establish the guidelines within which such instruments may be used. These policies require that SaskEnergy use financial instruments only to manage risks associated with transactions undertaken in the normal course of business. During 2002, the Corporation used derivative financial instruments to hedge natural gas prices, foreign currency exchange rates and interest rates.

Hedge accounting is used when there is a high degree of correlation between price movements in the derivative financial instrument and the item designated as being hedged. Gains and losses are recognized in the same period as the hedged item is settled and are recorded in the statement of earnings. If correlation ceases, hedge accounting is terminated and future changes in the market value of the derivative instruments are recognized as gains or losses in the period of change.

- Natural gas price risk management

  The Corporation may hedge the purchase price and sale price of natural gas. The purchase or sale price of gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, financial instruments may be used as a hedge to fix the settlement amount. The types of financial instruments SaskEnergy uses to effect these hedges include natural gas price swaps, options, and swaptions traded on the over-the-counter market. In addition, SaskEnergy may use futures contracts and options on futures contracts traded on the New York Mercantile Exchange. From time to time, the Corporation may sell options to generate premium revenue which is used to offset the cost to purchase natural gas.

- Foreign currency exchange and interest rate risk management

  The Corporation uses financial instruments to hedge the interest rate on anticipated borrowing requirements and the foreign currency exchange rate on foreign currency denominated transactions. For the purpose of hedging interest rates, the Corporation may use forward rate agreements, options, and interest rate swaps. For the purpose of hedging the exchange rate on transactions denominated in foreign currency, SaskEnergy may use currency forwards and currency options.

j. Employees' future benefits

The cost of future retirement allowance benefits earned by employees is actuarially determined using the projected benefit method and management's best estimates. Past service costs are amortized on a straight-line basis over the average remaining service period of active employees.

k. Deferred financing charges

Included in deferred financing charges are issue costs, discounts incurred on the issue of long-term debt, and costs of terminating delayed start interest rate swaps relating to financing of debt. These deferred financing charges are amortized as part of interest expense over the term of the related debt on a straight-line basis.

l. Customer capital contributions

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

m. Revenue recognition

Delivery and commodity revenue is recognized when natural gas is delivered to customers. An estimate of gas delivered, but not billed, is included in revenue.

Transportation and storage revenue is recognized when transportation, transportation related services and storage are provided to customers. An estimate of transportation, storage revenue and related services rendered, but not billed, is included in revenue.

Revenue for consulting services is earned as services are performed.

n. Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas on the open market, transportation, direct operating costs related to supply acquisition, and natural gas inventory carrying costs.

3. NATURAL GAS IN STORAGE

a. Natural gas in storage classified as a current asset has been purchased for the purpose of resale.

b. Natural gas in storage classified as a non-current asset is located within the Corporation's various storage facilities and is required for the ongoing operations of the storage facilities.

c. Certain natural gas in storage sold in 2002 and 2001 was purchased for nil consideration from an affiliate in 1988. This consideration was equal to the affiliate's net book value at that time.

4. GAS COST VARIANCE ACCOUNT

The GCVA, as at December 31, includes natural gas costs to be refunded to or recovered from customers as follows:

	2002	2001
	(thousands)	
Commodity sales revenue within Saskatchewan	$ 377,281	$ 310,435
Less:		
Cost of gas	418,038	375,718
Interest expense on the GCVA balance	439	1,044
Loss from commodity sales	41,196	66,327
Refunded to customers during the year	(9,519)	-
Under-recovery	-	(75,846)
Balance, end of year to be collected from or (refunded to) customers	$ 31,677	$ (9,519)

The loss from commodity sales of $41,196 thousand ($66,327 thousand in 2001) is included in the December 31, 2002 retained earnings balance of $223,373 thousand ($220,969 thousand in 2001).

At May 31, 2001, the cost of gas sold exceeded commodity sales revenue by $75,846 thousand. Effective May 31, 2001, the Government of Saskatchewan directed SaskEnergy not to increase its commodity rates to recover the shortfall. As a result, SaskEnergy did not recover these commodity gas costs from customers.

As at December 31, 2002, the GCVA had an accumulated balance of $31,677 thousand as commodity gas costs had again exceeded commodity revenue. As of December 31, 2002, a decision had not been made as to whether future rates would be increased to recover this shortfall.

5. PROPERTY, PLANT AND EQUIPMENT

	2002			2001		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Transmission and storage	$ 573,181	$147,833	$ 425,348	$ 555,823	$132,576	$ 423,247
Distribution	566,118	141,704	424,414	545,662	126,205	419,457
Gathering, treatment and compression	157,780	55,262	102,518	154,630	49,323	105,307
Vehicles, equipment and other	134,621	67,578	67,043	122,392	56,535	65,857
Royalty interest	6,509	6,509	-	6,831	6,805	26
Construction in progress	5,943	-	5,943	4,793	-	4,793
	$1,444,152	$418,886	$ 1,025,266	$ 1,390,131	$371,444	$ 1,018,687

The composite amortization rate was 3.55 per cent during 2002 (3.64 per cent during 2001).

6. INVESTMENTS AND OTHER ASSETS

Investments and other assets are as follows:

		2002	2001
		(thousands)	
a. Investments	Per cent Ownership		
i. Gas Sur S.A.	30	$ 11,986	$ 12,740
ii. Igasamex USA Ltd.	12.4	3,846	92
		15,832	12,832
b. Deferred costs		1,515	-
c. Deferred charges			
Unamortized deferred financing costs		7,850	8,874
Unamortized past service costs		4,455	5,091
		12,305	13,965
Total investments and other assets:		$ 29,652	$ 26,797

a. Investments:

i. Gas Sur S.A.

Under authority of Order-in-Council 735/1998 dated December 9, 1998, the Corporation purchased a 15 per cent equity interest in Gas Sur S.A., a Chilean natural gas distribution company. On December 14, 2001, under authority of Order-in-Council 825/2001 dated November 13, 2001, the Corporation increased its equity interest in Gas Sur S.A. to 30 per cent. The total amount invested was $12,740 thousand as at December 31, 2002 (2001 - $12,740 thousand).

The Corporation's share of the foreign currency translation adjustment resulted in a $740 thousand reduction in the balance of the investment in Gas Sur S.A. The Corporation's 30 per cent share of Gas Sur S.A.'s 2002 loss was $14 thousand.

The cost of the investment exceeds the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately $5,100 thousand and is not being amortized.

ii. Igasamex USA Ltd.

Under authority of Order-in-Council 879/2001 dated December 5, 2001, the Corporation purchased a 12.4 per cent equity interest in Igasamex USA Ltd. a limited liability partnership registered in the United States. The equity interest is held through general partnership and limited partnership units. Igasamex USA Ltd. owns a 100 per cent voting interest in Integrated Gas Services de Mexico, S. de R.L. de C.V., a corporation that provides natural gas transmision services to Mexico's industrial sector.

The Corporation paid $3,846 thousand for its equity interest in Igasamex USA Ltd.

The Order-in-Council limits the investment in Igasamex USA Ltd. to a maximum of $12,000 thousand United States Dollars.

b. Deferred costs

The Corporation owns 50.1 per cent of Heritage Gas Limited (Heritage Gas). During 2002, Heritage Gas filed a formal application with the Nova Scotia Utility and Review Board (NSUARB) in order to obtain the natural gas distribution franchise for a specific area of Nova Scotia.

The Corporation has capitalized $1,515 thousand of costs related to the Heritage Gas franchise application as deferred costs.

The decision of the NSUARB to award the natural gas distribution franchise was pending as at December 31, 2002. A decision is expected in 2003. Should the NSUARB not grant the franchise to Heritage Gas or should the Heritage Gas shareholders agree not to proceed, the deferred costs noted above will be expensed in 2003. If the shareholders agree to proceed, the deferred costs will be transferred to Heritage Gas as an asset in 2003.

7. LONG-TERM DEBT

Years to Maturity	2002 Principal Outstanding (thousands)	2002 Average Fixed Interest Rate (per cent)	2001 Principal Outstanding (thousands)	2001 Average Fixed Interest Rate (per cent)
Province of Saskatchewan				
1 - 5	$ 245,954	8.6	$ 198,249	8.8
6 - 10	194,261	7.5	241,966	7.5
16 - 30	193,971	7.3	193,971	7.3
	634,186		634,186	
Less sinking fund equity	(20,407)		(15,431)	
Less due within one year	(4,040)		(4,040)	
Due to Province of Saskatchewan	609,739		614,715	
Other	4,816	13.5	4,816	13.5
Total long-term debt	$ 614,555		$ 619,531	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required to (on an annual basis) invest an amount equal to one per cent of the related outstanding debt. This investment is referred to as a sinking fund. These sinking funds are administered by the Province of Saskatchewan's Department of Finance. The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 5.36 per cent for 2002 (6.19 per cent for 2001).

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

c. Short-term debt

During 2002, the Corporation borrowed funds on a short-term basis from the Province of Saskatchewan's General Revenue Fund at an average interest rate of 4.0 per cent (2001 – 4.0 per cent).

Short-term debt at December 31, 2002 consists of $173,200 thousand (2001 - $218,192 thousand) that was due to the Province of Saskatchewan's General Revenue Fund with an interest rate of 2.7 per cent (2001 – 2.0 per cent).

d. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows: (thousands)

	2003	2004	2005	2006	2007
Principal	$ -	$ 30,457	$ 101,195	$66,597	$47,705
Sinking fund instalments	4,040	4,040	4,040	3,290	3,290
Total	$ 4,040	$ 34,497	$ 105,235	$69,887	$50,995

e. Interest expense

Interest expense was as follows:

	2002	2001
	(thousands)	
Interest on long-term debt	$ 50,597	$ 54,234
Interest expense on short-term debt	5,041	7,693
Interest on cost of gas sold	(2,387)	(5,002)
Sinking fund earnings	(937)	(3,307)
Interest capitalized	(178)	(271)
Interest income	-	(31)
	$ 52,136	$ 53,316

Cash interest paid during 2002 on long-term debt was $50,466 thousand (2001 - $60,816 thousand).

8. CUSTOMER CAPITAL CONTRIBUTIONS

Contributions are required to be paid by customers to SaskEnergy to aid in construction of certain customer-specific facilities in accordance with established business policies.

	2002	2001
	(thousands)	
Balance, beginning of year	$ 97,190	$ 94,716
Contributions received	9,646	5,050
Contributions amortized	(2,749)	(2,576)
Balance, end of year	$104,087	$ 97,190

9. EQUITY ADVANCES

The Corporation does not have share capital. However, the Corporation has received advances from Crown Investments Corporation of Saskatchewan (CIC) to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

10. COMMITMENTS

➢ FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Long-term debt	$ 639,002	$ 741,938	$ 639,002	$ 727,009
Sinking fund equity	20,407	21,299	15,431	15,386
Natural gas price hedges owed to (by) SaskEnergy:				
- swaps	-	(12,498)	393	(35,669)
- options	-	-	36,506	(44,711)
Foreign currency exchange hedges owed to (by) SaskEnergy	-	-	(238)	1,943
Interest rate hedges owed to (by) SaskEnergy:				
- forward rate agreements	-	(129)	-	(182)

The fair values of the above instruments were based on the following:

i. Long-term debt - The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Sinking fund equity - The market value of the investments held in the sinking fund as at year end.

iii. Natural gas price swaps - The relevant index price in effect as at year end.

iv. Natural gas price options - The relevant index price in effect as at year end.

v. Foreign exchange - The Bank of Canada exchange rate as at year end.

vi. Interest rate hedges - Closing quotations from the counterparty as to the amount to settle the contract as at year end.

The carrying values of other financial instruments (accounts receivable, accounts payable, dividends payable and short-term debt) approximate fair value.

b. Credit risk

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To reduce its credit risk, SaskEnergy has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties.

c. Forward sale agreements

The Corporation has entered into forward sale agreements to deliver 12.9 petajoules of natural gas during 2003 and 2004 for a total of $44,262 thousand. The Corporation has entered into natural gas price swaps with counterparties, to fix the selling price for 11.8 petajoules of the 12.9 petajoules committed for sale during 2003 and 2004.

d. Guarantees

SaskEnergy Incorporated has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholders' Agreement. The guarantee is expressly limited to $5,000 thousand United States Dollars (USD).

e. Letters of Credit

i. The Corporation has posted a $933 thousand USD letter of credit in favour of Bank One, N.A., a United States bank. The letter of credit was used as collateral for the Corporation's share of a line of credit Bank One, N.A. has granted to Igasamex Bajio, S. de R.L. de C.V., a wholly owned subsidiary of Integrated Gas Services de Mexico, S. de R.L. de C.V. Bank One, N.A. may draw upon this letter of credit if Igasamex defaults under the terms of its loan agreement with Bank One, N.A.

ii. The Corporation has posted a $10,000 thousand letter of credit with NGX Financial Inc. (NGX) as security for gas purchase and sales transactions conducted by SaskEnergy on the NGX electronic natural gas exchange in Alberta. NGX may only draw on the letter of credit if SaskEnergy fails to make timely payment for, or delivery of natural gas as per the related contract. The posting of letters of credit is designed to ensure the security of the contracts traded on the Exchange. All participants in the Exchange are required to post security.

➢ LEASES

The Corporation leases natural gas storage facilities near Regina, Saskatchewan. The annual base lease payments are as follows: (thousands)

2003	2004	2005	2006	2007	Thereafter	Total
$371	$380	$389	$399	$409	$1,509	$3,457

11. REVENUE COLLECTED FOR AND PAID TO MUNICIPALITIES

a. Natural gas distribution

In accordance with regulations under **The SaskEnergy Act**, SaskEnergy is required to remit to 109 urban municipalities an amount calculated as either five per cent or three per cent of natural gas sales to customers within the respective municipality. These municipal payments are charged to customers and reported as revenue collected for municipalities. These amounts are remitted to the respective municipalities and reported as payments to municipalities on the statement of earnings and retained earnings. In 2002, revenue collected and paid to municipalities was $18,637 thousand (2001 - $16,336 thousand).

b. Natural gas transmission

In accordance with regulations under **The SaskEnergy Act**, TransGas Limited (TransGas) is required to collect from specific customers an amount based on the value of natural gas transported on their behalf. TransGas in turn pays the revenue collected to the certain municipalities. The revenue collected is classified as revenue collected for municipalities, and the expense paid is classified as payments to municipalities. In 2002, revenue collected and paid to municipalities was $3,961 thousand (2001 - $5,816 thousand).

12. NET SALES FROM GAS MARKETING

Net sales from gas marketing include the following:

	2002	2001
	(thousands)	
Competitive gas sales	$ 331,103	$ 497,838
Cost of gas	316,551	459,307
Margin	$ 14,552	$ 38,531

13. SASKATCHEWAN TAXES AND ROYALTIES

Saskatchewan taxes and royalties include the following:

	2002	2001
	(thousands)	
Corporate capital tax	$ 6,080	$ 5,154
Royalties	1,926	4,700
Mitigation payments and property taxes	1,015	994
	$ 9,021	$ 10,848

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

14. NET CHANGE IN NON-CASH WORKING CAPITAL

	2002	2001
	(thousands)	
Prepaid expenses	$ 36,506	$ (36,506)
Accounts receivable	26,204	6,207
Accounts payable	(8,234)	(22,942)
Natural gas in storage - current	(7,818)	(60,369)
Inventories of supplies	(18)	(254)
Gas cost variance account	-	26,068
	$ 46,640	$ (87,796)

15. RELATED PARTY TRANSACTIONS

Included in these consolidated financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

Routine operating transactions with these related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms. Transactions during the year, and amounts outstanding at year end, are as follows:

	2002	2001
	(thousands)	
Revenue	$ 31,378	$ 27,166
Operating expenses	23,680	25,791
Customer capital contributions	2,567	2,650
Accounts receivable	2,346	914
Accounts payable	651	979

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan's Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

16. PENSION PLANS

Substantially all employees of the corporations included in these consolidated financial statements are members of either a defined contribution or a defined benefit pension plan.

In accordance with the terms of the defined contribution plan (Public Employees Pension Plan) and the defined benefit pension plan (Power Corporation Superannuation Plan), the Corporation's obligations are limited to making regular payments to the plans to match contributions made by the employees for current services. During the year, the corporation contributed $2,705 thousand (2001 - $2,525 thousand) on behalf of employees for current services.

17. SEGMENTED INFORMATION

SaskEnergy operates predominantly in the following two industry segments:

Distribution (Distribution Division of SaskEnergy) provides natural gas distribution services to the Province of Saskatchewan.

Transportation (TransGas Limited) operates the major natural gas transmission pipeline system within Saskatchewan providing open access transmission services including gathering, compression and natural gas processing to end use customers, marketers and export producers. This company also provides natural gas storage services.

A) Statement of Earnings (millions of dollars)

	Distribution		Transportation		Other[1]		Intercompany[2]		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
REVENUE										
Delivery revenue	**169.9**	158.1	-	-	**0.6**	0.5	**(3.6)**	(3.5)	**166.9**	155.1
Transportation and storage	-	-	**124.2**	126.0	**3.6**	3.6	**(59.2)**	(59.9)	**68.6**	69.7
Net sales from gas marketing	-	-	**28.3**	35.0	-	-	**(13.8)**	3.5	**14.5**	38.5
Revenue collected for municipalities	**18.6**	16.3	**4.0**	5.8	-	-	-	-	**22.6**	22.1
Other	**(0.4)**	4.3	-	-	**4.7**	6.2	**0.4**	(4.4)	**4.7**	6.1
Revenue	**188.1**	178.7	**156.5**	166.8	**8.9**	10.3	**(76.2)**	(64.3)	**277.3**	291.5
EXPENSES										
Operating and maintenance	**118.2**	116.8	**51.2**	49.8	**2.4**	2.3	**(60.0)**	(59.3)	**111.8**	109.6
Interest	**18.9**	17.7	**28.8**	29.6	**1.0**	1.3	**3.4**	4.6	**52.1**	53.2
Amortization of capital assets	**24.6**	23.6	**24.9**	24.6	**0.8**	1.6	-	-	**50.3**	49.8
Payments to municipalities	**18.6**	16.3	**4.0**	5.8	-	-	-	-	**22.6**	22.1
Saskatchewan taxes and royalties	**4.0**	3.0	**4.3**	7.2	**0.7**	0.6	-	-	**9.0**	10.8
Expenses	**184.3**	177.4	**113.2**	117.0	**4.9**	5.8	**(56.6)**	(54.7)	**245.8**	245.5
Net earnings from operations before the following	**3.8**	1.3	**43.3**	49.8	**4.0**	4.5	**(19.6)**	(9.6)	**31.5**	46.0
Commodity revenue	**377.3**	310.4	-	-	**0.3**	0.1	**(0.3)**	-	**377.3**	310.5
Cost of gas sold	**418.5**	376.7	-	-	**0.3**	0.1	**(16.9)**	(4.9)	**401.9**	371.9
Net revenue (loss) from commodity sales	**(41.2)**	(66.3)	-	-	-	-	**16.6**	4.9	**(24.6)**	(61.4)
Net earnings (loss)	**(37.4)**	(65.0)	**43.3**	49.8	**4.0**	4.5	**(3.0)**	(4.7)	**6.9**	(15.4)

B) Statement of Financial Position (millions of dollars)

	Distribution		Transportation		Other[1]		Intercompany[2]		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
Current assets	**233.4**	280.5	**54.6**	58.5	**5.4**	5.2	**(61.1)**	(58.9)	**232.3**	285.3
Property, plant & equipment, & natural gas in storage	**467.2**	461.4	**563.4**	563.4	**26.1**	26.5	**(3.1)**	(2.0)	**1,053.6**	1,049.3
Investments & other assets	**7.8**	8.5	**5.2**	5.9	**15.8**	12.9	**0.8**	(0.5)	**29.6**	26.8
Total assets	**708.4**	750.4	**623.2**	627.8	**47.3**	44.6	**(63.4)**	(61.4)	**1,315.5**	1,361.4
Current liabilities	**182.6**	218.4	**61.7**	67.9	**10.2**	9.2	**48.2**	56.6	**302.7**	352.1
Customer capital contributions	**67.0**	64.9	**34.2**	29.6	**5.9**	5.9	**(3.0)**	(3.2)	**104.1**	97.2
Long-term debt	**266.1**	268.0	**335.1**	338.1	**13.6**	13.7	**(0.3)**	(0.2)	**614.5**	619.6
Total liabilities	**515.7**	551.3	**431.0**	435.6	**29.7**	28.8	**44.9**	53.2	**1,021.3**	1,068.9
Total equity	**192.7**	199.1	**192.2**	192.2	**17.6**	15.8	**(108.3)**	(114.6)	**294.2**	292.5
Total liabilities and equity	**708.4**	750.4	**623.2**	627.8	**47.3**	44.6	**(63.4)**	(61.4)	**1,315.5**	1,361.4

[1]The Other category includes Many Islands Pipelines (Canada) Limited, Bayhurst Gas Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated and Swan Valley Gas Corporation.

[2]The Intercompany category includes general corporate assets, liabilities, revenues and expenses, and also reflects the elimination of intercompany transactions required upon consolidation.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Corporation accounts for intercompany sales as if the sales were to third parties, that is, at current market prices.

The reportable segments are the major strategic business units of the Corporation. Each business unit is managed separately as it provides products and services requiring different business, technology and marketing strategies.

18. SASKATCHEWAN RATE REVIEW PANEL

During 2000, the Saskatchewan Rate Review Panel was established by Minister's Order. The Panel was established to conduct a review of the Corporation's request for a change in rates charged for natural gas commodity sales and delivery service. The review of proposed rate changes considers the interests of the consumer, the Corporation and the public. SaskEnergy did not apply for either a commodity or delivery charge rate increase or decrease in 2002.

19. COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

SASKENERGY INCORPORATED

DISTRIBUTION DIVISION

FINANCIAL STATEMENTS

DECEMBER 31, 2002

Deloitte
& Touche

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Deloitte & Touche

Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of the Distribution Division of SaskEnergy Incorporated as at December 31, 2002 and the statements of loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Distribution Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Distribution Division as at December 31, 2002, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The Distribution Division is a component of SaskEnergy Incorporated and has no separate legal status. Transactions with other divisions and affiliates of SaskEnergy Incorporated are described in notes to the financial statements.

Deloitte & Touche LLP

Chartered Accountants

Regina, Canada
February 4, 2003

Deloitte Touche Tohmatsu

SASKENERGY INCORPORATED

DISTRIBUTION DIVISION

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31
(thousands)

	Note	2002	2001
ASSETS			
CURRENT ASSETS			
Accounts receivable		$ 106,486	$ 133,748
Natural gas in storage		84,891	99,028
Intercompany accounts receivable		37,250	6,382
Inventories of supplies		4,833	4,889
Prepaid expenses		-	36,506
		233,460	280,553
PROPERTY, PLANT AND EQUIPMENT	5	467,163	461,408
DEFERRED CHARGES	6	7,785	8,496
		$ 708,408	$ 750,457
LIABILITIES AND HOLDINGS DIVISION'S EQUITY			
CURRENT LIABILITIES			
Bank indebtedness		$ 75,625	$ 99,684
Accounts payable		93,743	103,664
Intercompany accounts payable		11,555	13,363
Current portion of notes payable	8	1,640	1,640
		182,563	218,351
CUSTOMER CAPITAL CONTRIBUTIONS	7	67,034	64,898
NOTES PAYABLE TO HOLDINGS DIVISION	8	266,078	268,044
TOTAL LIABILITIES		515,675	551,293
HOLDINGS DIVISION'S EQUITY			
Equity advances	9	245,910	214,910
Deficit	4	(53,177)	(15,746)
		192,733	199,164
		$ 708,408	$ 750,457
COMMITMENTS	10		

(See accompanying notes)

On behalf of the Board:

M Simm, Director

Emmett Hardy, Director

SASKENERGY INCORPORATED

DISTRIBUTION DIVISION

STATEMENT OF LOSS AND DEFICIT

FOR THE YEAR ENDED DECEMBER 31

(thousands)

	Note	2002	2001
REVENUE			
Delivery revenue		$ 169,845	$ 158,138
Revenue collected for municipalities	11	18,637	16,336
Other revenue	12	(382)	4,239
		188,100	178,713
EXPENSES			
Operating and maintenance		68,115	66,722
Transportation and storage		50,107	50,052
Amortization of property, plant and equipment		24,555	23,575
Interest	8	18,861	17,646
Payments to municipalities	11	18,637	16,336
Saskatchewan taxes	13	4,060	3,048
Total expenses		184,335	177,379
Net earnings from operations before the following		3,765	1,334
Commodity sales revenue		377,281	310,435
Cost of gas sold		418,477	376,762
Loss from commodity sales	4	(41,196)	(66,327)
Loss		(37,431)	(64,993)
(Deficit) retained earnings, beginning of year		(15,746)	49,247
Deficit, end of year		$ (53,177)	$ (15,746)

(See accompanying notes)

SASKENERGY INCORPORATED

DISTRIBUTION DIVISION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

(thousands)

	Note	2002	2001
OPERATING ACTIVITIES			
Loss		$ (37,431)	$ (64,993)
Add (deduct) items not requiring an outlay of cash			
Amortization of property, plant and equipment		24,555	23,575
Amortization of deferred charges		711	749
Amortization of customer capital contributions		(1,658)	(1,615)
		(13,823)	(42,284)
Net change in non-cash working capital related to operations	14	35,364	(86,750)
Cash provided by operating activities		21,541	(129,034)
INVESTING ACTIVITIES			
Net additions to property, plant and equipment		(30,310)	(34,931)
Increase in customer contributions		3,794	3,149
Increase in deferred charges		-	(3,809)
Cash used in investing activities		(26,516)	(35,591)
FINANCING ACTIVITIES			
Increase in equity advances from the Holdings Division	9	31,000	75,900
(Decrease) increase in bank indebtedness		(24,059)	54,516
Repayment of notes payable to Holdings Division		(1,966)	(21,780)
Proceeds of notes payable to Holdings Division		-	55,989
Cash provided by financing activities		4,975	164,625
INCREASE (DECREASE) IN CASH, during year		-	-
CASH, beginning of year		-	-
CASH, end of year		$ -	$ -

(See accompanying notes)

SASKENERGY INCORPORATED

DISTRIBUTION DIVISION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

1. STATUS OF THE CORPORATION

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan provincial Crown corporation operating under authority of **The SaskEnergy Act**.

By virtue of **The Crown Corporations Act, 1993**, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC.

As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

SaskEnergy has the legislated franchise right to distribute natural gas in Saskatchewan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policies are considered to be significant:

a. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at average cost.

b. Natural gas in storage

Natural gas in storage is stated at cost. Natural gas removed from storage is accounted for on an average cost basis.

c. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in income for the current period.

Other asset retirements are recorded by reducing the account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Distribution		Buildings	4.0
- Stations	3.0	Leasehold improvements	4.0 to 10.0
- Mains (urban)	2.5	Computers	
- Services (urban)	3.3	- Hardware	20.0 to 50.0
- Meters	3.5	- Software	10.0 to 20.0
- Mains and services (rural)	2.5	Vehicles, tools and equipment	8.0 to 11.1
		Furniture and fixtures	4.0

d. Customer capital contributions

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

e. Revenue recognition

Delivery and commodity revenue is recognized when natural gas is delivered to customers. An estimate of gas delivered, but not billed, is included in revenue.

f. Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas on the open market, net hedging settlements, transportation, direct operating costs related to supply acquisition, and natural gas inventory carrying costs.

g. Gas cost variance account

For rate setting purposes, SaskEnergy's approved selling price for natural gas is based on the principle that it neither profits from nor incurs a loss on sale. Therefore, the Corporation established a Gas Cost Variance Account (GCVA) to accumulate differences between commodity revenue and the cost of gas sold. Subject to approval of the Government of Saskatchewan, balances accumulated in the GCVA are either recovered from or refunded to customers through future rates. Amounts over-recovered or under-recovered during the year are reported as a gain or loss from commodity sales.

Where the cost of gas sold exceeds commodity sales revenue, the Government of Saskatchewan may, at its discretion, elect to not increase SaskEnergy's rates to recover the shortfall.

h. Competitive gas sales

Where the Corporation purchases natural gas in the open market at a fixed purchase price and simultaneously enters into agreements to sell this natural gas at a fixed selling price the gain or loss is recorded at the time the transaction is settled.

In addition, the Corporation may enter into contracts that require either the physical delivery (sale) or receipt (purchase) of gas in a future period. Contracts may be structured so that the settlement price is determined in the future at the time of delivery or receipt. Changes in the value of the contract due to a change in market prices up to the date of settlement are recorded as gains or losses in the period of change.

i. Hedge Accounting

The Corporation uses various derivative financial instruments to hedge its operating exposures to fluctuations in foreign currency exchange rates, interest rates and natural gas costs. A Corporate Derivatives Policy and specific hedging strategies establish the guidelines within which such instruments may be used. These policies require that SaskEnergy use financial instruments only to manage risks associated with transactions undertaken in the normal course of business. During 2002, the Corporation used derivative financial instruments to hedge natural gas prices, foreign currency exchange rates and interest rates.

Hedge accounting is used when there is a high degree of correlation between price movements in the derivative financial instrument and the item designated as being hedged. Gains and losses are recognized in the same period as the hedged item is settled and are recorded in the statement of loss and deficit. If correlation ceases, hedge accounting is terminated and future changes in the market value of the derivative instruments are recognized as gains or losses in the period of change.

- Natural gas price risk management

  The Corporation may hedge the purchase price and sale price of natural gas. The purchase or sale price of gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, financial instruments may be used as a hedge to fix the settlement amount. The types of financial instruments SaskEnergy uses to effect these hedges include natural gas price swaps, options, and swaptions traded on the over-the-counter market. In addition, SaskEnergy may use futures contracts and options on futures contracts traded on the New York Mercantile Exchange. From time to time, the Corporation may sell options to generate premium revenue which is used to offset the cost to purchase natural gas.

- Foreign currency exchange and interest rate risk management

  The Corporation uses financial instruments to hedge the interest rate on anticipated borrowing requirements and the foreign currency exchange rate on foreign currency denominated transactions. For the purpose of hedging interest rates, the Corporation may use forward rate agreements, options, and interest rate swaps. For the purpose of hedging the exchange rate on transactions denominated in foreign currency, SaskEnergy may use currency forwards and currency options.

j. Employees' future benefits

The cost of future retirement allowance benefits earned by employees is actuarially determined using the projected benefit method and management's best estimates. Past service costs are amortized on a straight-line basis over the average remaining service period of active employees.

k. Deferred financing charges

Included in deferred financing charges are issue costs, discounts resulting from the issue of long-term debt, and costs of terminating delayed start interest rate swaps relating to financing of debt. These deferred financing charges are amortized as part of interest expense over the term of the related debt on a straight-line basis.

3. BASIS OF PRESENTATION

There are two separate divisions (business units) within SaskEnergy. These financial statements reflect only the results of operations of the natural gas distribution utility referred to as the Distribution Division. The other division is referred to as the Holdings Division.

These financial statements are prepared primarily for management purposes. All information pertinent to the resources and results of operations of the Corporation and its subsidiaries is available to CIC. Consolidated financial statements for the Corporation are presented to the Legislative Assembly.

4. GAS COST VARIANCE ACCOUNT

The GCVA, as at December 31, includes natural gas costs to be recovered from or (refunded to) customers as follows:

	2002	2001
	(thousands)	
Commodity sales revenue	$ 377,281	$ 310,435
Less:		
Cost of gas before interest on the GCVA	418,038	375,718
Interest on the GCVA	439	1,044
Loss from commodity sales	41,196	66,327
Refunded to customers during the year	(9,519)	-
Under-recovery	-	(75,846)
Balance, end of year to be collected from or (refunded to) customers	$ 31,677	$ (9,519)

The loss from commodity sales of $41,196 thousand (2001 - $66,327 thousand) is included in the December 31, 2002 deficit balance of $53,177 thousand (2001 - $15,746 thousand) on the statement of financial position.

At May 31, 2001, the cost of gas sold exceeded commodity sales revenue by $75,846 thousand. Effective May 31, 2001, the Government of Saskatchewan directed SaskEnergy not to increase its commodity rates to recover the shortfall. As a result, SaskEnergy did not recover these commodity gas costs from customers.

As at December 31, 2002, the GCVA had an accumulated balance of $31,677 thousand as commodity gas costs had again exceeded commodity revenue. As of December 31, 2002, a decision had not been made as to whether future rates would be increased to recover this shortfall.

5. PROPERTY, PLANT AND EQUIPMENT

	2002			2001		
			(thousands)			
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Mains and services	$ 479,804	$119,296	$360,508	$ 462,767	$106,413	$356,354
Regulator stations	50,929	12,092	38,837	49,416	10,641	38,775
Metering	32,471	10,923	21,548	30,923	9,791	21,132
Computer systems	31,122	20,284	10,838	27,412	15,788	11,624
Vehicles, equipment	29,447	13,745	15,702	21,515	10,588	10,927
Tools, buildings and furniture	25,901	6,171	19,730	29,547	6,951	22,596
	$ 649,674	$182,511	$467,163	$ 621,580	$160,172	$461,408

The composite rate of amortization was 3.9 per cent during 2002 (3.9 per cent during 2001).

Included in distribution assets is an amount of $3,100 thousand (2001 - $3,198 thousand) paid to TransGas Limited (an affiliate) as a contribution in aid of construction of certain pipeline facilities. Amortization expense related to this amount in 2002 was $98 thousand (2001- $98 thousand).

6. DEFERRED CHARGES

Deferred charges include the following:

	2002	2001
	(thousands)	
Unamortized deferred financing charges	$ 4,618	$ 4,877
Unamortized past service costs	3,167	3,619
	$ 7,785	$ 8,496

7. CUSTOMER CAPITAL CONTRIBUTIONS

Contributions are required to be paid by customers to SaskEnergy to aid in construction of certain customer-specific facilities in accordance with established business policies:

	2002	2001
	(thousands)	
Balance, beginning of year	$ 64,898	$ 63,364
Contributions received	3,794	3,149
Contributions amortized	(1,658)	(1,615)
Balance, end of year	$ 67,034	$ 64,898

8. NOTES PAYABLE TO HOLDINGS DIVISION

Years to Maturity	2002 Principal Outstanding (thousands)	2002 Average Fixed Interest Rate (per cent)	2001 Principal Outstanding (thousands)	2001 Average Fixed Interest Rate (per cent)
1 - 5	$ 102,508	8.05	$ 65,254	8.58
6 - 10	61,571	7.78	98,825	7.53
11 - 30	108,971	6.33	108,971	6.33
	273,050		273,050	
Less sinking fund equity	(5,332)		(3,366)	
	267,718		269,684	
Less due within one year	(1,640)		(1,640)	
	$ 266,078		$ 268,044	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required to (on an annual basis) invest an amount equal to one per cent of the outstanding debt. This investment is referred to as a sinking fund. These funds are administered by the Province of Saskatchewan's Department of Finance. The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 5.36 per cent for 2002 (6.19 per cent for 2001).

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

c. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows:

(thousands)	2003	2004	2005	2006	2007
Principal	$ -	$12,479	$10,732	$42,043	$ 37,254
Sinking fund instalments	1,640	1,640	1,640	1,640	1,640
Total	$ 1,640	$14,119	$ 12,372	43,683	$ 38,894

d. Interest expense

Interest expense was as follows:

	2002	2001
	(thousands)	
Interest on long-term debt	$ 20,198	$ 19,341
Interest on bank indebtedness	1,400	3,639
Interest income on short-term investments	(10)	(10)
Sinking fund earnings	(234)	(155)
Interest capitalized	(106)	(167)
Interest on cost of gas sold	(2,387)	(5,002)
	$ 18,861	$ 17,646

Cash interest paid during 2002 on long-term debt was $19,938 thousand (2001 - $21,720 thousand).

9. EQUITY ADVANCES

The Distribution Division does not have share capital. However, the Distribution Division has received equity advances from the Holdings Division to form its equity capitalization. The advances reflect an equity investment in the Distribution Division by the Holdings Division.

The Holdings Division advanced equity of $31,000 thousand in 2002 (2001 - $75,900 thousand).

10. COMMITMENTS

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Long-term debt	$ 273,050	$ 302,785	$ 273,050	$ 296,926
Sinking fund equity	5,332	5,565	3,366	3,356
Natural gas price hedges owed to (by) SaskEnergy:				
- swaps	-	436	393	(38,532)
- options	-	-	36,506	(44,711)
Foreign currency exchange hedges owed to (by) SaskEnergy	-	-	(238)	1,943

The fair values of the above instruments were based on the following:

i. Long-term debt - The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Sinking fund equity - The market value of the investments held in the sinking fund as at year end.

iii. Natural gas price swaps - The relevant index price in effect as at year end.

iv. Natural gas price options - The relevant index price in effect as at year end.

v. Foreign currency exchange - The Bank of Canada exchange rate as at year end.

The carrying values of other financial instruments (accounts receivable, accounts payable and short-term indebtedness) approximate fair value.

b. Credit risk management

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To reduce its credit risk, SaskEnergy has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties.

c. Letter of credit

SaskEnergy has posted a $10,000 thousand letter of credit with NGX Financial Inc. (NGX) as security for gas purchase and sales transactions conducted by SaskEnergy on the NGX electronic natural gas exchange in Alberta. NGX may only draw on the letter of credit if SaskEnergy fails to make timely payment for, or delivery of natural gas as per the related contract. The posting of letters of credit is designed to ensure the security of the contracts traded on the Exchange. All participants in the Exchange are required to post security.

11. REVENUE COLLECTED FOR AND PAID TO MUNICIPALITIES

In accordance with regulations under **The SaskEnergy Act**, SaskEnergy is required to remit to 109 urban municipalities an amount calculated as either five percent or three percent of natural gas sales to customers within the respective municipality. These municipal payments are charged to customers and reported as revenue collected for municipalities. These amounts are remitted to the respective municipalities and reported as payments to municipalities on the statement of loss.

12. OTHER REVENUE

Other revenue includes the following:

	2002	2001
	(thousands)	
Competitive gas sales	$336,656	$ 498,129
Cost of gas	341,112	497,675
Gas marketing margin	(4,456)	454
Customer connect and late payment fees	1,963	1,663
Amortization of customer capital contributions	1,658	1,615
Customer service fees	453	507
	$ (382)	$ 4,239

13. SASKATCHEWAN TAXES

Saskatchewan taxes include the following:

	2002	2001
	(thousands)	
Corporate capital tax	$ 4,046	$ 3,019
Property taxes	14	29
	$ 4,060	$ 3,048

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

14. CHANGE IN NON-CASH WORKING CAPITAL

The net change in non-cash working capital related to operations was as follows:

	2002	2001
	(thousands)	
Prepaid expenses	$ 36,506	$ (36,506)
Natural gas in storage	14,137	(59,802)
Inventories of supplies	56	(174)
Gas cost variance account	-	26,068
Accounts receivable / intercompany accounts receivable	(3,606)	955
Accounts payable / intercompany accounts payable	(11,729)	(17,291)
	$ 35,364	$ (86,750)

15. RELATED PARTY TRANSACTIONS

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

a. Related party transactions with the Holdings Division and the Corporation's subsidiary corporations were as follows:

	2002	2001
	(thousands)	
Transportation and storage	$ 50,132	$ 50,053
Cost of gas sold	$ 29,229	$ 41,821
Interest expense	$ 19,954	$ 19,176
Delivery revenue	$ 7,784	$ 7,393
Other revenue	$ 3,144	$ 3,183

b. Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

These transactions, and amounts outstanding at year end, are as follows:

	2002	2001
	(thousands)	
Operating expenses	$ 17,012	$ 16,701
Revenue	15,432	11,850
Accounts receivable	957	1,065
Customer capital contributions	632	648
Accounts payable	614	607

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

16. PENSION PLANS

Substantially all employees of the Corporation are members of either a defined contribution or a defined benefit pension plan.

In accordance with the terms of the respective defined contribution plan (Public Employees Pension Plan) and defined benefit pension plan (Power Corporation Superannuation Plan), the Corporation's obligations are limited to making regular payments to the plans to match contributions made by the employees for current services. During the year, the Corporation contributed $1,961 thousand (2001 - $1,842 thousand) on behalf of employees for current services.

17. SASKATCHEWAN RATE REVIEW PANEL

During 2000, The Saskatchewan Rate Review Panel was established by Minister's Order. The Panel was established to conduct a review of the Corporation's request for a change in rates charged for natural gas commodity sales and delivery service. The review of proposed rate changes consider the interests of the consumer, the Corporation and the public. SaskEnergy did not apply for either a commodity or delivery charge rate increase or decrease in 2002.

18. COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

SASKENERGY INCORPORATED

HOLDINGS DIVISION

FINANCIAL STATEMENTS

DECEMBER 31, 2002

Deloitte
& Touche

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Deloitte
& Touche

Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of the Holdings Division of SaskEnergy Incorporated as at December 31, 2002 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Holdings Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Holdings Division as at December 31, 2002, and the results of its operations and its cash flows for the year then ended in accordance with the basis of accounting described in note 2.

The Holdings Division is a component of SaskEnergy Incorporated and has no separate legal status. Transactions with other divisions and affiliates of SaskEnergy Incorporated are described in the notes to the financial statements.

Deloitte & Touche LLP

Chartered Accountants

Regina, Canada
February 4, 2003

Deloitte Touche
Tohmatsu

SASKENERGY INCORPORATED - HOLDINGS DIVISION

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

(thousands)

	Note	2002	2001
ASSETS			
CURRENT ASSETS			
Cash		$ 62,840	$ 64,605
Dividends receivable		36,344	43,673
Accounts receivable		982	-
Intercompany interest receivable		-	10,117
		100,166	118,395
INVESTMENTS	4	872,765	842,341
DEFERRED FINANCING CHARGES		7,848	8,872
DEFERRED COSTS	5	1,515	-
		$982,294	$969,608
LIABILITIES AND PROVINCE'S EQUITY			
CURRENT LIABILITIES			
Short-term debt		$173,200	$218,192
Intercompany accounts payable		17,811	-
Interest payable		13,344	13,344
Dividend payable		4,460	-
Long-term debt due within one year		4,040	4,040
		212,855	235,576
LONG-TERM DEBT	6	609,739	614,716
TOTAL LIABILITIES		822,594	850,292
PROVINCE OF SASKATCHEWAN'S EQUITY			
Equity advances	7	71,531	71,531
Retained earnings		88,169	47,785
		159,700	119,316
		$982,294	$969,608

(See accompanying notes)

On behalf of the Board:

_____, Director

_____, Director

SASKENERGY INCORPORATED - HOLDINGS DIVISION

STATEMENT OF EARNINGS AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31

(thousands)

	Note	2002	2001
REVENUE			
Interest		$ 50,503	$ 52,661
Dividends		48,228	53,132
		98,731	105,793
EXPENSES			
Interest	6	53,887	57,741
Net earnings		44,844	48,052
Retained earnings (deficit), beginning of year		47,785	(267)
Dividend		(4,460)	-
Retained earnings, end of year		$ 88,169	$ 47,785

(See accompanying notes)

SASKENERGY INCORPORATED - HOLDINGS DIVISION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

(thousands)

	Note	2002	2001
OPERATING ACTIVITIES			
Net earnings		$ 44,844	$ 48,052
Add item not requiring an outlay of cash Amortization of deferred financing costs		1,024	921
		45,868	48,973
Net change in non-cash working capital related to operations	8	34,275	(34,241)
Cash provided by operating activities		80,143	14,732
INVESTING ACTIVITIES			
Increase in investments		(30,424)	(59,937)
Increase in deferred costs		(1,515)	-
Cash used in investing activities		(31,939)	(59,937)
FINANCING ACTIVITIES			
Increase (decrease) in short-term debt		(44,992)	218,192
Decrease in long-term debt		(4,977)	(233,921)
Increase in long-term debt		-	140,000
Increase in financing costs		-	(7,985)
Dividend paid		-	(7,410)
Cash provided by (used in) financing activities		(49,969)	108,876
INCREASE (DECREASE) IN CASH during year		(1,765)	63,671
CASH POSITION, beginning of year		64,605	934
CASH POSITION, end of year		$ 62,840	$ 64,605

(See accompanying notes)

SASKENERGY INCORPORATED - HOLDINGS DIVISION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

1. STATUS OF THE CORPORATION

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan provincial Crown corporation operating under authority of **The SaskEnergy Act**.

By virtue of **The Crown Corporations Act, 1993**, SaskEnergy Incorporated has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of SaskEnergy Incorporated are included in the consolidated financial statements of CIC, a provincial Crown corporation.

As a provincial Crown corporation, SaskEnergy Incorporated and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, except as noted below, and applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policies are considered to be significant:

a. Equity advances to the Distribution Division

These advances are considered to be long-term equity investments by the Holdings Division and are therefore referred to as equity advances. The equity advances are initially recorded at cost. Earnings distributions from this division are recognized in income as dividends when receivable.

b. Investments in wholly owned subsidiaries

Investments in wholly owned subsidiaries are accounted for on the cost method. Dividends from these share investments are recognized as income when receivable.

c. Hedge accounting

The Corporation uses various derivative financial instruments to hedge its operating exposures to fluctuations in interest rates. A Corporate Derivatives Policy and specific hedging strategies establish the guidelines within which such instruments may be used. These policies require that SaskEnergy use financial instruments only to manage risks associated with transactions undertaken in the normal course of business. During 2002, the Corporation used derivative financial instruments to hedge interest rates.

Hedge accounting is used when there is a high degree of correlation between price movements in the derivative financial instrument and the item designated as being hedged. Gains and losses are recognized in the same period as the hedged item is settled and are recorded in the statement of earnings. If correlation ceases, hedge accounting is terminated and future changes in the market value of the derivative instruments are recognized as gains or losses in the period of change.

- Interest rate risk management

  The Corporation uses financial instruments to hedge the interest rate on anticipated borrowing requirements. For the purpose of hedging interest rates, the Corporation may use forward rate agreements, options, and interest rate swaps.

d. Deferred financing charges

Included in deferred financing charges are issue costs, discounts incurred on the issue of long-term debt, and costs of terminating delayed start interest rate swaps relating to financing of debt. These deferred financing charges are amortized as part of interest expense over the term of the related debt on a straight-line basis.

3. BASIS OF PRESENTATION

There are two separate divisions (business units) within SaskEnergy Incorporated. These financial statements reflect only the results of operations of the division which holds interests in the subsidiaries. This division is referred to as the Holdings Division. The other division is referred to as the Distribution Division. Investments in shares of subsidiaries and equity advances to the Distribution Division are not consolidated but are recorded at cost.

These financial statements are prepared primarily for management purposes. All information pertinent to the resources and results of operations of the Corporation and its subsidiaries is available to CIC. Consolidated financial statements for the Corporation are presented to the Legislative Assembly.

As these financial statements have not been prepared for general purposes, some users may require consolidated financial information.

4. INVESTMENTS

The Holdings Division has made the following investments in and loans to its subsidiaries and the Distribution Division (*thousands*).

		2002	2001
a.	Loans receivable *	$605,471	$609,765
b.	Equity investments		
	Distribution Division**	245,910	214,910
	SaskEnergy International Incorporated	16,320	12,603
	TransGas Limited	4,001	4,001
	Bayhurst Gas Limited	1,061	1,061
	Swan Valley Gas Corporation	1	1
	Saskatchewan First Call Corporation	1	-
	Many Islands Pipe Lines (Canada) Limited ***	-	-
	6019021 Canada Inc. ****	-	-
		267,294	232,576
	Total investments	$872,765	$842,341

All companies are wholly-owned subsidiaries of the Holdings Division

* The terms and conditions on the loans receivable from TransGas Limited, Many Islands Pipe Lines (Canada) Limited and the Distribution Division are structured so that they reflect the same terms and conditions as the Holdings Division's long-term debt.

** During 2002, the Distribution Division transferred liabilities of $31,000 thousand (2001 - $75,900 thousand) to the Holdings Division, and the Holdings Division increased its equity advances to the Distribution Division by an equal amount. These transactions were recorded at carrying value.

*** The recorded cost of the Many Islands Pipe Lines (Canada) Limited shares is $101 (2001 - $101).

**** The recorded cost of 6019021 Canada Inc. shares is $502 (2001 – nil).

5. DEFERRED COSTS

A wholly owned subsidiary of SaskEnergy Inc., 6019021 Canada Inc., owns 50.1 per cent of Heritage Gas Limited (Heritage Gas). During 2002, Heritage Gas filed a formal application with the Nova Scotia Utility and Review Board (NSUARB) in order to obtain the natural gas distribution franchise for a specific area of Nova Scotia.

The Holdings division has capitalized $1,515 thousand of expenses related to the Heritage Gas franchise application. These expenses are included in deferred costs.

The decision of the NSUARB to award the natural gas distribution franchise was pending as at December 31, 2002. A decision is expected in 2003. Should the NSUARB not grant the franchise to Heritage Gas, the deferred costs noted above will be expensed in 2003. In accordance with the Unanimous Shareholders' Agreement, if the franchise is awarded to Heritage Gas, the shareholders of Heritage Gas have 30 days to determine whether or not to accept the franchise terms and conditions as set out by the NSUARB. If the shareholders agree to proceed, the deferred costs will be transferred to Heritage Gas as an asset in 2003.

6. LONG-TERM DEBT

All of the long-term debt is owing to the Province of Saskatchewan's General Revenue Fund.

	2002		2001	
Years to Maturity	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)
1 - 5	$ 245,954	8.6	$ 198,249	8.8
6 - 10	194,261	7.5	241,967	7.5
16 - 30	193,971	7.3	193,971	7.3
	634,186		634,187	
Less sinking fund equity	(20,407)		(15,431)	
	613,779		618,756	
Less due within one year	(4,040)		(4,040)	
	$ 609,739		$ 614,716	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required to (on an annual basis) invest an amount equal to one per cent of the related outstanding debt. These investments are referred to as sinking funds. These sinking funds are administered by the Province of Saskatchewan's Department of Finance. The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 5.36 per cent for 2002 (6.19 per cent 2001).

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

c. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows: (thousands)

	2003	2004	2005	2006	2007
Principal	$ -	$30,457	$101,195	$ 66,597	$ 47,705
Sinking fund instalments	4,040	4,040	4,040	3,290	3,290
Total	$ 4,040	$34,497	$105,235	$ 69,887	$ 50,995

d. Interest expense

Interest expense was as follows:

	2002	2001
	(thousands)	
Interest on long-term debt	$ 49,816	$ 53,419
Interest on short-term debt	3,984	6,618
Amortization of deferred financing costs	1,024	1,011
Sinking fund earnings	(937)	(3,307)
	$ 53,887	$ 57,741

Cash interest paid during 2002 on long-term debt was $49,816 thousand (2001 - $60,166 thousand)

7. EQUITY ADVANCES

The Holdings Division does not have share capital. However, the Holdings Division has received advances from CIC. The advances are considered to be an equity investment in the Holdings Division by CIC.

8. CHANGE IN NON-CASH WORKING CAPITAL

The net change in non-cash working capital related to operations was as follows:

	2002	2001
	(thousands)	
Intercompany accounts payable	$ 17,811	$ -
Intercompany accounts receivable	10,117	9,803
Dividends receivable	7,329	(36,949)
Accounts receivable	(982)	-
Interest payable	-	(7,095)
	$ 34,275	$ (34,241)

9. RELATED PARTY TRANSACTIONS

Included in these financial statements are income and expense amounts resulting from operating transactions conducted with subsidiary corporations, CIC and the Saskatchewan Department of Finance.

Account balances resulting from these transactions are included in the statement of financial position and are settled on normal trade terms. Amounts due to and from related parties are described separately in these financial statements and notes.

10. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

The fair value of the Holding Division's financial instruments is listed below:

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Long-term loans receivable	$ 634,187	$ 731,476	$ 634,187	$ 716,970
Sinking fund equity payable	20,408	21,299	15,338	15,293
Long-term debt	634,187	731,476	634,187	716,970
Sinking fund equity receivable	20,408	21,299	15,431	15,386
Interest rate hedges owed to (by) SaskEnergy:				
- forward rate agreements	-	(129)	-	(182)

The fair values of the above instruments were based on the following:

i. Long-term loans receivable The present value of future cash flows discounted at the market rate for the equivalent Province of Saskatchewan debt instruments.

ii. Long-term debt The present value of future cash flows discounted at the market rate for the equivalent Province of Saskatchewan debt instruments.

iii. Sinking fund equity payable The fair value of the investments held in the sinking fund on behalf of the Distribution Division and subsidiaries as at year end.

iv. Sinking fund equity receivable Equivalent to the fair value of the sinking fund receivable from the Province of Saskatchewan as at year end.

v. Interest rate hedges Closing quotations from the counterparty as to the amount to settle the contract as at year end.

The carrying values of other financial instruments (intercompany accounts receivable, intercompany accounts payable and cash) approximate fair value.

b. Credit risk

The Holdings Division has extended credit only to the Distribution Division and the subsidiary corporations listed in Note 4. The Holdings Division expects all amounts due to be paid. There were no credit losses in 2002.

11. COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

TRANSGAS LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2002

Deloitte
& Touche

Deloitte & Touche LLP
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Regina SK S4P 3Z8

Tel: (306) 525 1600
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Deloitte
& Touche

Auditors' Report

To the Shareholder of TransGas Limited

We have audited the statement of financial position of TransGas Limited as at December 31, 2002 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Canada
February 4, 2003

Deloitte Touche
Tohmatsu

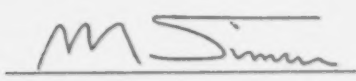
TRANSGAS LIMITED

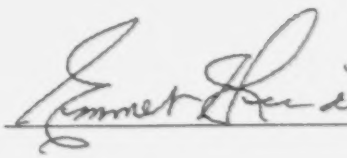
STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	Note	2002	2001
		(thousands)	
ASSETS			
CURRENT ASSETS			
Cash		$ 16,920	$ 39,328
Natural gas in storage for resale	3	21,352	1,214
Accounts receivable		10,505	10,401
Intercompany accounts receivable		5,366	7,172
Inventories of supplies		496	424
		54,639	58,539
PROPERTY, PLANT AND EQUIPMENT	4	535,018	533,962
NATURAL GAS IN STORAGE	5	28,327	29,363
DEFERRED CHARGES	6	5,183	5,889
		$623,167	$627,753
LIABILITIES AND SHAREHOLDER'S EQUITY			
CURRENT LIABILITIES			
Dividend payable		$ 32,565	$ 40,633
Accounts payable		13,624	11,987
Intercompany accounts payable		13,157	12,947
Long-term debt due within one year	8	2,300	2,300
		61,646	67,867
CUSTOMER CAPITAL CONTRIBUTIONS	7	34,215	29,578
LONG-TERM DEBT	8	335,113	338,115
TOTAL LIABILITIES		430,974	435,560
SHAREHOLDER'S EQUITY			
Share capital	9	4,001	4,001
Retained earnings		188,192	188,192
		192,193	192,193
		$623,167	$627,753
COMMITMENTS	10		
(See accompanying notes)			

On behalf of the Board:

 , Director

 , Director

TRANSGAS LIMITED

STATEMENT OF EARNINGS AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31

	Note	2002	2001
		(thousands)	
REVENUE			
Transportation and storage		$ 124,258	$ 125,995
Net revenue from natural gas sales	3	28,294	34,933
Revenue collected for municipalities	12	3,961	5,816
		156,513	166,744
EXPENSES			
Operating and maintenance		51,243	49,779
Interest	8	28,791	29,632
Amortization of property, plant and equipment		24,916	24,564
Saskatchewan taxes and royalties	11	4,325	7,175
Payments to municipalities	12	3,961	5,816
Total expenses		113,236	116,966
Net earnings		43,277	49,778
Retained earnings, beginning of year		188,192	186,289
Dividend		(43,277)	(47,875)
Retained earnings, end of year		$ 188,192	$188,192

(See accompanying notes)

TRANSGAS LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

	Note	2002	2001
		(thousands)	
OPERATING ACTIVITIES			
Net earnings		$ 43,277	$ 49,778
Add (deduct) items not requiring an outlay of cash			
Amortization of property, plant and equipment		24,916	24,564
Amortization of deferred charges		706	661
Amortization of customer capital contributions		(939)	(868)
		67,960	74,135
Net change in non-cash working capital related to operations	13	(16,661)	1,606
Cash provided by operating activities		51,299	75,741
INVESTING ACTIVITIES			
Additions to property, plant, and equipment		(25,972)	(18,664)
Customer capital contributions received		5,576	724
Decrease in natural gas in storage (non-current)		1,036	1,658
Increase in deferred charges		-	(4,104)
Cash used in investing activities		(19,360)	(20,386)
FINANCING ACTIVITIES			
Dividend paid		(51,345)	(12,875)
Repayment of long-term debt		(3,002)	(134,501)
Proceeds from long-term debt		-	80,000
Cash used in financing activities		(54,347)	(67,376)
DECREASE IN CASH during year		(22,408)	(12,021)
CASH POSITION, beginning of year		39,328	51,349
CASH POSITION, end of year		$ 16,920	$ 39,328

(See accompanying notes)

TRANSGAS LIMITED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

1. STATUS OF THE CORPORATION

TransGas Limited (TransGas) was incorporated on March 30, 1988 under the **Saskatchewan Business Corporations Act**. TransGas Limited is a wholly owned subsidiary of SaskEnergy Incorporated (SEI), a Saskatchewan provincial Crown corporation.

The Corporation, as a wholly owned subsidiary of a Saskatchewan provincial Crown corporation, is not subject to Federal or Provincial income taxes in Canada.

The Corporation operates the major natural gas transmission pipeline system within Saskatchewan providing open access transmission services including gathering, compression and natural gas processing to end use customers, marketers and export producers. The Corporation has the legislated franchise for the transmission of natural gas within Saskatchewan. The Corporation also provides natural gas storage services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policies are considered to be significant:

a. Inventories of supplies

Inventories of supplies consist primarily of general supplies used for construction and maintenance and are recorded at the lower of average cost or replacement cost.

b. Natural gas in storage

Natural gas in storage is stated at cost.

c. Property, plant and equipment

Property, plant and equipment is recorded at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in income for the current period.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows (in per cent):

Transmission and storage	2.5 to 2.6
Gathering, treatment and compression	2.5 to 3.5
Vehicles, equipment and other	4.0 to 33.0

d. Employees' future benefits

The cost of future retirement allowance benefits earned by employees is actuarially determined using the projected benefit method and management's best estimates. Past service costs are amortized on a straight-line basis over the average remaining service period of active employees.

e. Deferred financing charges

Included in deferred financing charges are issue costs, discounts incurred on the issue of long-term debt, and costs of terminating delayed start interest rate swaps relating to financing of debt in 2002. These deferred financing charges are amortized as part of interest expense over the term of the related debt on a straight-line basis.

f. Customer capital contributions

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

g. Revenue recognition

Revenue is recognized when transportation, transportation related services and storage are provided to customers. An estimate of transportation, storage and related services rendered, but not billed, is included in revenue. For natural gas purchased for resale, revenue is recognized upon completion of the delivery of natural gas.

3. NET REVENUE FROM NATURAL GAS SALES

a. Natural Gas in Storage

The natural gas in storage sold in 2002 and 2001 was purchased for nil consideration from an affiliate in 1991. This consideration was equal to the affiliate's net book value at that time.

b. Natural Gas in Storage for Resale

In 2001, the Corporation purchased natural gas in the open market at a fixed purchase price and simultaneously entered into agreements to sell this natural gas at a fixed selling price with delivery to occur in 2002. In 2002, the Corporation also purchased natural gas in the open market at a fixed purchase price and simultaneously entered into agreements to sell this natural gas at a fixed selling price, with delivery to occur in 2003.

Net revenue from natural gas sales consists of the following:

	2002	2001
	(thousands)	
Sales revenue from natural gas in storage	$ 26,003	$ 37,608
Cost of natural gas sold	-	2,675
Net revenue from natural gas in storage	26,003	34,933
Sales revenue from natural gas purchased for resale	6,682	-
Cost of natural gas purchased for resale	4,391	-
Net Revenue from natural gas purchased for resale	2,291	-
Net revenue from natural gas sales	$ 28,294	$ 34,933

4. PROPERTY, PLANT AND EQUIPMENT

	2002			2001		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Transmission and storage	$ 546,574	$142,016	$ 404,558	$ 530,457	$127,457	$403,000
Gathering, treatment and compression	156,546	54,634	101,912	153,396	48,738	104,658
Vehicles, equipment and other	49,543	26,938	22,605	45,313	22,719	22,594
Construction in progress	5,943	-	5,943	3,710	-	3,710
	$ 758,606	$223,588	$ 535,018	$ 732,876	$198,914	$533,962

The composite rate of amortization was 3.4 per cent during 2002 (3.4 per cent during 2001).

5. NATURAL GAS IN STORAGE

Natural gas in storage classified as a non-current asset is located within the Corporation's various storage facilities and is required for the ongoing operations of the storage facilities.

6. DEFERRED CHARGES

Deferred charges include the following:

	2002	2001
	(thousands)	
Unamortized deferred financing costs	$ 3,913	$ 4,437
Unamortized past service costs	1,270	1,452
	$ 5,183	$ 5,889

7. CUSTOMER CAPITAL CONTRIBUTIONS

Contributions are received from customers to aid in construction of customer-specific facilities in accordance with established business policies.

	2002	2001
	(thousands)	
Balance, beginning of year	$ 29,578	$ 29,722
Contributions received	5,576	724
Contributions amortized	(939)	(868)
Balance, end of year	$ 34,215	$ 29,578

Included in customer capital contributions is an amount of $3,101 thousand (2001 - $3,198 thousand) received from SEI for customer capital contributions in aid of construction of certain transmission facilities.

8. LONG-TERM DEBT

Years to Maturity	2002 Principal Outstanding (thousands)	2002 Average Fixed Interest Rate (per cent)	2001 Principal Outstanding (thousands)	2001 Average Fixed Interest Rate (per cent)
Notes payable to parent				
1 - 5	$141,432	8.9	$131,289	8.9
6 - 10	131,140	7.4	141,283	7.5
21 - 25	75,000	8.8	75,000	8.8
	347,572		347,572	
Less sinking fund equity	(14,975)		(11,973)	
Notes payable	332,597		335,599	
Less due within one year	(2,300)		(2,300)	
Total notes payable	330,297		333,299	
Other debt	4,816	13.5	4,816	13.5
Long-term debt	$335,113		$338,115	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund to SEI, TransGas Limited is required to (on an annual basis) invest an amount equal to one per cent of the related outstanding debt. This investment is referred to as sinking fund. These funds are administered by the Province of Saskatchewan's Department of Finance. The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 5.36 per cent for 2002 (6.19 per cent for 2001).

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

c. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows: (thousands)

	2003	2004	2005	2006	2007
Principal	$ -	$17,449	$ 90,008	$ 23,832	$ 10,144
Sinking fund instalments	2,300	2,300	2,300	1,550	1,550
Total	$ 2,300	$19,749	$ 92,308	$ 25,382	$ 11,694

d. Interest expense

Interest expense was as follows:

	2002	2001
	(thousands)	
Interest on notes payable to parent	$ 28,881	$ 32,051
Interest on other debt	650	650
Amortization of deferred financing costs	524	418
Sinking fund earnings	(702)	(2,048)
Interest income on short-term investments	(494)	(1,374)
Interest capitalized	(68)	(65)
	$ 28,791	$ 29,632

Cash interest paid during the year on notes payable to parent was $28,881 thousand (2001 - $36,114 thousand).

9. SHARE CAPITAL

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. Thirty (30) shares (2001 – thirty) are issued and outstanding.

10. COMMITMENTS

a. The Corporation leases natural gas storage facilities near Regina, Saskatchewan. The base lease payments are as follows: (thousands)

2003	2004	2005	2006	2007	Thereafter	Total
$371	$380	$389	$399	$409	$1,509	$3,457

b. With regard to the natural gas in storage referenced in Note 3a. and 3b., the Corporation has entered into forward sale agreements to deliver 12.9 petajoules of natural gas during 2003 and 2004 for a total of $44,262 thousand.

c. The Corporation has entered into natural gas price swaps with counterparties, to fix the selling price for 11.8 petajoules of the 12.9 petajoules committed for sale during 2003 and 2004.

11. SASKATCHEWAN TAXES AND ROYALTIES

Saskatchewan taxes and royalty payments include the following:

	2002	2001
	(thousands)	
Corporate capital tax	$ 2,009	$ 2,102
Royalties	1,926	4,700
Mitigation payments and property taxes	390	373
	$ 4,325	$ 7,175

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

12. REVENUE COLLECTED FOR AND PAID TO MUNICIPALITIES

In accordance with regulations under **The SaskEnergy Act**, the Corporation is required to collect from specific customers an amount based on the value of natural gas transported on their behalf. The Corporation in turn pays the revenue collected to the certain municipalities. The revenue collected is classified as revenue collected for municipalities, and the expense paid is classified as payments to municipalities.

13. NET CHANGE IN NON-CASH WORKING CAPITAL

	2002	2001
	(thousands)	
Intercompany accounts receivable	$ 1,806	$ (1,229)
Accounts payable	1,637	1,465
Intercompany accounts payable	210	679
Inventories of supplies	(72)	(82)
Accounts receivable	(104)	773
Natural gas in storage for resale	(20,138)	-
	$ (16,661)	$ 1,606

14. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Long-term debt	$352,388	$424,017	$352,388	$415,514
Sinking fund equity	14,975	15,628	11,973	11,938
Natural Gas Price Swaps	-	(12,934)	-	2,863

The fair values of the above instruments were based on the following:

i. Long-term debt The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Sinking fund equity - The market value of the investments held in the sinking fund as at year end.

iii. Natural Gas Price Swaps - The relevant index price in effect as at year end.

The carrying values of other financial instruments (cash, accounts receivable, intercompany accounts receivable, accounts payable, intercompany accounts payable, and dividend payable) approximate fair value.

b. Credit risk

The Corporation provides credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. Excluding related parties (see Note 15), the Corporation has approximately 110 customers. In 2002, credit losses were less than 0.1 per cent of total revenue.

15. RELATED PARTY TRANSACTIONS

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

a. Transactions with SEI and its subsidiaries were as follows:

	2002	2001
	(thousands)	
Transportation and storage revenue	$ 57,065	$ 58,358
Net revenue from natural gas sales	$ 28,294	$ 37,489
Operating and maintenance expenses	$ 14,254	$ 13,793
Interest expense	$ 28,209	$ 30,482

These items have been recorded at their exchange amounts.

b. Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

These transactions, and amounts outstanding at year end, are as follows:

	2002	2001
	(thousands)	
Accounts receivable	$ 1,389	$ 890
Accounts payable	37	372
Revenue	15,946	15,361
Operating expenses	6,635	9,053
Customer capital contributions	1,935	2,002

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

16. PENSION PLANS

Substantially all employees of the corporation are members of either a defined contribution or a defined benefit pension plan.

In accordance with the terms of the defined contribution plan (Public Employees Pension Plan) and the defined benefit pension plan (Power Corporation Superannuation Plan), the Corporation's obligations are limited to making regular payments to the plans to approximately match contributions made by the employees for current services. During the year, the corporation contributed $725 thousand (2001 - $662 thousand) on behalf of employees for current services.

17. SUBSEQUENT EVENT

Effective January 1, 2003, the Corporation sold certain natural gas in storage and related assets to an affiliate, Bayhurst Gas Limited. In accordance with the Purchase of Asset Agreement and other related agreements, the assets were sold for $33,226 thousand.

18. COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

MANY ISLANDS PIPE LINES (CANADA) LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2002

Deloitte
& Touche

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Deloitte
& Touche

Auditors' Report

To the Shareholder of Many Islands Pipe Lines (Canada) Limited

We have audited the statement of financial position of Many Islands Pipe Lines (Canada) Limited as at December 31, 2002 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Canada
February 4, 2003

Deloitte Touche
Tohmatsu

MANY ISLANDS PIPE LINES (CANADA) LIMITED

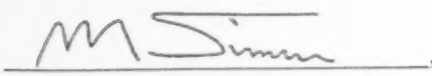
STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	Note	2002	2001
		(thousands)	
ASSETS			
CURRENT ASSETS			
Accounts receivable		$ 312	$ 275
PROPERTY, PLANT AND EQUIPMENT	3	18,130	18,590
		$ 18,442	$ 18,865
LIABILITIES AND SHAREHOLDER'S EQUITY			
CURRENT LIABILITIES			
Bank indebtedness		$ 574	$ 631
Dividend payable		351	131
Intercompany accounts payable		204	724
Accounts payable		147	124
Notes payable due within one year		80	80
		1,356	1,690
NOTES PAYABLE TO PARENT	4	11,638	11,727
TOTAL LIABILITIES		12,994	13,417
SHAREHOLDER'S EQUITY			
Share capital	5	-	-
Retained earnings		5,448	5,448
		5,448	5,448
		$ 18,442	$ 18,865

(See accompanying notes)

On behalf of the Board:

 , Director

, Director

MANY ISLANDS PIPE LINES (CANADA) LIMITED

STATEMENT OF EARNINGS AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31

	Note	2002	2001
		(thousands)	
REVENUE			
Transportation		$ 3,603	$ 3,451
Other		-	151
		3,603	3,602
EXPENSES			
Operating and maintenance		1,130	1,191
Interest	4	861	763
Amortization of property, plant and equipment		645	605
Saskatchewan taxes	6	601	593
Total expenses		3,237	3,152
Net earnings		366	450
Retained earnings, beginning of year		5,448	5,246
Dividend		(366)	(248)
Retained earnings, end of year		$ 5,448	$ 5,448

(See accompanying notes)

MANY ISLANDS PIPE LINES (CANADA) LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

	Note	2002	2001
		(thousands)	
OPERATING ACTIVITIES			
Net earnings		$ 366	$ 450
Add items not requiring an outlay of cash			
Amortization of property, plant, and equipment		645	605
Amortization of premium on note payable		(8)	-
Gain on disposal of property, plant and equipment		(2)	-
		1,001	1,055
Net change in non-cash working capital related to operations	7	(534)	(499)
Cash provided by operating activities		467	556
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(262)	(1,130)
Proceeds from sale of property, plant and equipment		79	-
Cash used in investing activities		(183)	(1,130)
FINANCING ACTIVITIES			
Dividend paid		(146)	(346)
Repayment of notes payable to parent		(81)	(3,991)
Proceeds from notes payable to parent		-	8,242
Cash provided by (used in) financing activities		(227)	3,905
DECREASE IN BANK INDEBTEDNESS during year		57	3,331
BANK INDEBTEDNESS, beginning of year		(631)	(3,962)
BANK INDEBTEDNESS, end of year		$ (574)	$ (631)

(See accompanying notes)

MANY ISLANDS PIPE LINES (CANADA) LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2002

1. STATUS OF THE CORPORATION

Many Islands Pipe Lines (Canada) Limited (MIPL) was incorporated on July 2, 1972 under the **Canada Business Corporations Act**. MIPL is a wholly owned subsidiary of SaskEnergy Incorporated (SEI), a Saskatchewan provincial Crown corporation.

As the Corporation is a wholly owned subsidiary of a Saskatchewan provincial Crown corporation, the Corporation is not subject to Federal or Provincial income taxes in Canada.

The Corporation owns and/or operates fourteen natural gas transmission pipelines: eleven interconnect Alberta to Saskatchewan pipelines, two interconnect United States and Saskatchewan pipelines, and one interconnects Manitoba and Saskatchewan pipelines. The pipelines are located mainly in Saskatchewan and either cross or terminate at the Alberta, Manitoba and United States borders.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policies are considered to be significant:

a. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in income for the current period.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset as follows: (in per cent) transmission 2.6, compression 3.5, treatment 2.5, and other from 2.5 to 15.0.

b. Revenue recognition

Revenue is recognized when transportation services are provided to customers. An estimate of transportation services rendered, but not billed, is included in revenue.

3. PROPERTY, PLANT AND EQUIPMENT

	2002			2001		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Transmission	$ 23,039	$ 5,578	$ 17,461	$21,813	$ 5,023	$ 16,790
Compression	1,220	622	598	1,220	580	640
Treatment	14	6	8	14	5	9
Construction in progress	-	-	-	1,083	-	1,083
Other	528	465	63	529	461	68
	$ 24,801	$ 6,671	$ 18,130	$24,659	$ 6,069	$ 18,590

The composite rate of amortization was 2.7 per cent during 2002 (2.6 per cent during 2001).

a. On April 1, 1988, the Corporation acquired a pipeline from Consolidated Pipe Lines Company (CPL). The original cost of the pipeline to CPL was $9,182 thousand and accumulated amortization of $6,879 thousand had been recorded as of April 1, 1988.

b. Pursuant to a National Energy Board (NEB) order dated April 11, 1991 the Corporation acquired a pipeline from its parent company, SaskEnergy Incorporated. Pursuant to a NEB order also dated April 11, 1991, SaskEnergy Incorporated acquired the pipeline from Saskatchewan Power Corporation (SPC). The original cost of this pipeline to SPC was $264 thousand and accumulated amortization of $151 thousand had been recorded as of April 11, 1991.

c. On December 9, 1993, the Corporation purchased a pipeline from an affiliated company, TransGas Limited, pursuant to a NEB order dated December 9, 1993. The original cost of the pipeline to TransGas Limited was $2,895 thousand and accumulated amortization of $62 thousand had been recorded as of December 9, 1993.

d. Pursuant to a NEB order dated September 28, 2000, the Corporation constructed a pipeline at an original cost of $4,023 thousand. The pipeline commenced service December 3, 2000.

4. NOTES PAYABLE TO PARENT

Years to Maturity	2002 Principal Outstanding (thousands)	2002 Average Fixed Interest Rate (per cent)	2001 Principal Outstanding (thousands)	2001 Average Fixed Interest Rate (per cent)
1 - 5	$ 2,014	10.5	$ 1,707	10.8
6 - 10	1,551	9.3	1,858	9.3
16-30	8,000	6.4	8,000	6.4
	11,565		11,565	
Less sinking fund equity	81		-	
Total notes payable to parent	11,484		11,565	
Unamortized premium	234		242	
Less due within one year	(80)		(80)	
Notes payable to parent	$ 11,638		$ 11,727	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund to SaskEnergy Incorporated, MIPL is required to (on an annual basis) invest an amount equal to one per cent of the related outstanding debt. These investments are referred to as sinking funds. These sinking funds are held by SaskEnergy Incorporated.

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

c. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows: (thousands)

	2003	2004	2005	2006	2007
Principal	$ -	$ 529	$ 455	$ 723	$ 307
Sinking fund instalments	80	80	80	80	80
Total	$ 80	$ 609	$ 535	$ 803	$ 387

d. Interest expense

Interest expense was as follows:

	2002	2001
	(thousands)	
Interest on notes payable to parent	$ 869	$ 506
Interest on bank indebtedness	5	318
Sinking fund earnings	(1)	(45)
Interest capitalized	(4)	(16)
Amortization of premium	(8)	-
	$ 861	$ 763

e. Cash interest paid during the year on notes payable to parent was $869 thousand (2001 - $515 thousand).

5. SHARE CAPITAL

Authorized share capital consists of 50,000 Class A common shares without nominal or par value. One hundred and one shares (2001 - 101) are issued and outstanding. The shares were issued for nominal consideration of $101.

6. SASKATCHEWAN TAXES

Saskatchewan taxes include the following:

	2002	2001
	(thousands)	
Property taxes	$ 576	$ 560
Corporate capital tax	25	33
	$ 601	$ 593

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

7. NET CHANGE IN NON-CASH WORKING CAPITAL

	2002	2001
	(thousands)	
Accounts payable	$ 23	$ (384)
Accounts receivable	(37)	(126)
Intercompany accounts payable	(520)	11
	$ (534)	$ (499)

8. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Notes payable to parent	$11,565	$12,966	$11,565	$12,521
Sinking fund equity	$ 81	$ 85	$ -	$ -

The fair values of the above instruments were based on the following:

i. Notes payable to parent - The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Sinking fund equity - The market value of the investments held in the sinking fund as at December 31, 2002.

The carrying values of other financial instruments (accounts receivable, accounts payable, intercompany accounts payable, dividend payable and bank indebtedness) approximate fair value.

b. Credit risk

The Corporation provides credit to its customers in the normal course of business. Excluding related parties (see Note 10), the Corporation has eight customers from which it earns approximately one-half of its revenue. The Corporation had a maximum credit exposure to any individual customer of approximately $140 thousand. There were no credit losses in 2002.

9. NATIONAL ENERGY BOARD REGULATION

All revenues and expenses of the Corporation are related to activities subject to regulation by the National Energy Board.

10. RELATED PARTY TRANSACTIONS

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

a. Transactions with SEI and its subsidiaries were as follows:

	2002	2001
	(thousands)	
Revenue	$ 1,803	$ 1,726
Operating and maintenance expenses	$ 1,049	$ 1,092
Interest expense	$ 868	$ 461

These items have been recorded at their exchange amounts.

b. By virtue of the Corporation being a subsidiary of SEI, it is related to various Saskatchewan Crown corporations, departments, agencies, boards and commissions subject to joint control and significant influence by the Government of Saskatchewan.

These transactions and amounts outstanding at year end were as follows:

	2002	2001
	(thousands)	
Operating expense	$ 33	$ 37

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

c. Swan Valley Gas Corporation (SVGC), a wholly-owned subsidiary of SaskEnergy Incorporated commenced operations December 21, 2000. Recognizing the delayed start up and capacity utilization, the Corporation entered into an agreement to provide SVGC with a reduced transport charge for the 2001 and 2002 fiscal years. The amount of this reduction is $135 thousand (2001 - $129 thousand).

11. COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

BAYHURST GAS LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2002

Deloitte
& Touche

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Deloitte
& Touche

Auditors' Report

To the Shareholder of Bayhurst Gas Limited

We have audited the statement of financial position of Bayhurst Gas Limited as at December 31, 2002 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Canada
February 4, 2003

BAYHURST GAS LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	Note	2002	2001
		(thousands)	
ASSETS			
CURRENT ASSETS			
Cash		$ 3,255	$ -
Accounts receivable and accrued revenue		910	565
Intercompany receivable		325	3,380
		4,490	3,945
ROYALTY INTEREST		6,509	6,831
Less accumulated amortization		6,509	6,805
		-	26
		$ 4,490	$ 3,971
LIABILITIES AND SHAREHOLDER'S EQUITY			
CURRENT LIABILITIES			
Accounts payable		$ 1	$ 1
Dividend payable		3,428	2,909
TOTAL LIABILITIES		3,429	2,910
SHAREHOLDER'S EQUITY			
Share capital	3	1,061	1,061
Retained earnings		-	-
		1,061	1,061
		$ 4,490	$ 3,971

(See accompanying notes)

On behalf of the Board:

M Simm, Director

Emmet Hendy, Director

BAYHURST GAS LIMITED

STATEMENT OF EARNINGS AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31

		2002	2001
		(thousands)	
REVENUE			
Royalties		$ 4,264	$ 5,943
Gain on sale of royalty interest	4	375	-
		4,639	5,943
EXPENSES			
Operating and maintenance		28	34
Amortization of royalty interest	4	26	900
Total expenses		54	934
Net earnings		4,585	5,009
Retained earnings, beginning of year		-	-
Dividend		(4,585)	(5,009)
Retained earnings, end of year		$ -	$ -

(See accompanying notes)

BAYHURST GAS LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

	Note	2002	2001
		(thousands)	
OPERATING ACTIVITIES			
Net earnings		$ 4,585	$ 5,009
Add (deduct) items not requiring an outlay of cash			
Gain on disposal of royalty interest		(375)	-
Amortization of royalty interest		26	900
		4,236	5,909
Net change in non-cash working capital related to operations	5	2,710	(2,947)
Cash provided by operating activities		6,946	2,962
INVESTING ACTIVITIES			
Proceeds from sale of royalty interest		375	-
Cash provided by investing activities		375	-
FINANCING ACTIVITIES			
Dividend paid		(4,066)	(2,962)
Cash used in financing activities		(4,066)	(2,962)
INCREASE IN CASH during the year		3,255	-
CASH POSITION, beginning of year		-	-
CASH POSITION, end of year		$ 3,255	$ -

(See accompanying notes)

BAYHURST GAS LIMITED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

1. STATUS OF THE CORPORATION

Bayhurst Gas Limited was incorporated on March 30, 1988 under the **Saskatchewan Business Corporations Act**. The corporation is a wholly owned subsidiary of SaskEnergy Incorporated, a Saskatchewan provincial Crown corporation.

The Corporation, as a wholly owned subsidiary of a Saskatchewan provincial Crown corporation, is not subject to Federal or Provincial income taxes in Canada.

The Corporation owns a gross overriding royalty interest in over 450 natural gas properties in Saskatchewan and Alberta whereby the Corporation receives monthly payments in accordance with the terms and conditions of the royalty interest.

The affairs of the Corporation are managed by the Board of Directors and the management of its parent, SaskEnergy Incorporated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policies are considered to be significant:

a. Revenue Recognition

Royalty revenue is recognized when natural gas is sold from wells subject to royalty agreements.

Royalty revenue, accounts receivable and accrued revenue as recognized in the financial statements are subject to measurement uncertainty. The foregoing amounts are based on the corporation's best information and judgment.

b. Royalty interest

The royalty interest is recorded at cost. Amortization expense is calculated on a unit-of-production basis.

3. SHARE CAPITAL

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. One hundred twenty (120) shares (2001 - 120 shares) are issued and outstanding.

4. GAIN ON SALE OF ROYALTY INTEREST

Effective March 1, 2002, the Corporation sold its interest in certain properties located in the Medicine Hat area of Alberta. The royalty interest on these properties was sold for $375 thousand. As the original cost of the royalty interest was fully amortized in 2002, the gain on sale was $375 thousand. The original cost and related accumulated amortization of $322 thousand have been removed from the accounts.

5. NET CHANGE IN NON-CASH WORKING CAPITAL

	2002	2001
	(thousands)	
Accounts receivable	$ (345)	$ 435
Intercompany receivable	3,055	(3,380)
Accounts payable	-	(2)
	$ 2,710	$ (2,947)

6. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

The carrying values of financial instruments (accounts receivable and accrued revenue, intercompany receivable, accounts payable and dividend payable) approximate fair value.

b. Credit risk

The Corporation receives monthly royalty revenue from certain natural gas properties. The largest receipts (approximately 67 per cent) are from one non-related company. The Corporation expects all future royalty payments to be received in accordance with the terms and conditions of the royalty agreements. There were no credit losses in 2002.

7. SUBSEQUENT EVENT

Effective January 1, 2003, the Corporation purchased certain natural gas in storage and related assets from an affiliate, TransGas Limited. In accordance with the Purchase of Asset Agreement and other related agreements, the assets were purchased for $34,926 thousand, which was financed with a loan from the parent for $33,226 thousand and the remainder of the consideration settled through assumption of a well abandonment and site restoration liability.

SWAN VALLEY GAS CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2002

Deloitte
& Touche

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Regina SK S4P 3Z8

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Deloitte & Touche

Auditors' Report

To the Shareholder of Swan Valley Gas Corporation

We have audited the statement of financial position of Swan Valley Gas Corporation as at December 31, 2002 and the statements of loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Canada
February 4, 2003

SWAN VALLEY GAS CORPORATION

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	Note	2002	2001
		(thousands)	
ASSETS			
CURRENT ASSETS			
Accounts receivable		$ 281	$ 825
Intercompany accounts receivable		14	101
Purchase gas variance account	3	81	-
		376	926
PROPERTY, PLANT AND EQUIPMENT	4	7,967	7,911
TOTAL ASSETS		$ 8,343	$ 8,837
LIABILITIES AND SHAREHOLDER'S EQUITY			
CURRENT LIABILITIES			
Bank indebtedness		$ 573	$ 974
Intercompany accounts payable		201	82
Accounts payable		40	37
Purchase gas variance account	3	-	6
Current portion of note payable	5	20	-
		834	1,099
NOTE PAYABLE TO PARENT	5	2,005	2,046
CAPITAL CONTRIBUTIONS	6	5,881	5,855
TOTAL LIABILITIES		8,720	9,000
SHAREHOLDER'S EQUITY			
Share capital	7	1	1
Deficit		(378)	(164)
		(377)	(163)
		$ 8,343	$ 8,837

(See accompanying notes)

On behalf of the Board:

_____, Director _____, Director

SWAN VALLEY GAS CORPORATION

STATEMENT OF LOSS AND DEFICIT

FOR THE YEAR ENDED DECEMBER 31

	Note	2002	2001
		(thousands)	
REVENUE			
Natural gas sales		$ 280	$ 72
Cost of gas sold		280	72
Natural gas sales margin		-	-
Delivery revenue		582	519
Amortization of capital contributions		152	93
Net revenue		734	612
EXPENSES			
Transportation		327	327
Operating and maintenance		258	252
Amortization of property, plant and equipment	4	224	154
Interest	5	139	73
Total expenses		948	806
Loss		(214)	(194)
(Deficit) retained earnings, beginning of year		(164)	30
Deficit, end of year		$ (378)	$ (164)

(See accompanying notes)

SWAN VALLEY GAS CORPORATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

	Note	2002	2001
		(thousands)	
OPERATING ACTIVITIES			
Loss		$ (214)	$ (194)
Add (deduct) items not requiring an outlay of cash			
Amortization of property, plant and equipment		224	154
Amortization of premium on note payable		(1)	-
Amortization of capital contributions		(152)	(93)
		(143)	(133)
Net change in non-cash working capital related to operations	8	666	(1,581)
Cash provided by (used in) operating activities		523	(1,714)
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(280)	(3,251)
Increase in capital contributions		178	1,384
Cash used in investing activities		(102)	(1,867)
FINANCING ACTIVITIES			
(Decrease) increase in bank indebtedness		(401)	1,535
Sinking fund installment	5	(20)	-
Proceeds from note payable to parent	5	-	2,046
Cash (used in) provided by financing activities		(421)	3,581
INCREASE (DECREASE) IN CASH during year		-	-
CASH, beginning of year		-	-
CASH, end of year		$ -	$ -

(See accompanying notes)

SWAN VALLEY GAS CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

1. STATUS OF THE CORPORATION

Swan Valley Gas Corporation (SVGC) was created on November 30, 1999 under **The Corporations Act of Manitoba**. The Corporation is a wholly-owned subsidiary of SaskEnergy Incorporated (SEI), a Saskatchewan provincial Crown corporation.

The Corporation, as a wholly-owned subsidiary of a Saskatchewan provincial Crown corporation, is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SEI.

The Corporation operates natural gas transmission and distribution facilities in the Swan Valley region of Manitoba.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policies are considered to be significant:

a. Property, plant and equipment

Property, plant and equipment is recorded at cost and includes all direct costs plus overhead charges and allowance for interest costs related to financing construction of the related assets.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows (in per cent):

General Plant	5.00
Service Lines and Meters	3.45
Pressure Regulation Stations	3.03
Main Lines	2.50

b. Capital Contributions

Capital contributions relate to construction of new natural gas distribution facilities. These contributions are amortized to income on a straight-line basis over the estimated service life of the related asset.

c. Revenue Recognition

Revenue is recognized when natural gas is delivered to customers. An estimate of gas delivered, but not billed, is included in revenue.

d. Regulation

The business activities of the Corporation are regulated by the Manitoba Public Utilities Board (MPUB).

The Corporation follows generally accepted accounting principles for its regulated operations which may differ from those otherwise expected in non-regulated businesses. These differences occur when the regulatory agency exercises its statutory authority and renders specific accounting and other rate-making decisions. In addition to defining certain accounting requirements, the regulatory agency has jurisdiction over a number of other principal matters, which include but are not limited to, the rates to be charged for the sale and distribution of natural gas and approval and recovery of costs for major construction and operations.

e. Natural Gas Supply

The Corporation contracts with SEI and its affiliated corporations for its natural gas supply, transportation and storage requirements. The Corporation takes delivery of natural gas at the inlet to its facilities approximately one kilometer east of the Manitoba-Saskatchewan border.

3. PURCHASE GAS VARIANCE ACCOUNT

For rate setting purposes, the Corporation's approved selling price for natural gas is based on the principle that it neither profits from nor incurs a loss on sale. Therefore, the Corporation established a Purchase Gas Variance Account (PGVA) to accumulate differences between commodity revenue and the cost of gas sold. Subject to approval of the MPUB, balances accumulated in the PGVA are either recovered from or refunded to customers through future rates.

4. PROPERTY, PLANT AND EQUIPMENT

	2002			2001		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Main lines	$ 6,372	$ 285	$ 6,087	$ 6,258	$ 126	$ 6,132
Service lines and meters	1,224	59	1,165	1,063	19	1,044
Stations	682	34	648	679	13	666
General plant	72	5	67	70	1	69
	$ 8,350	$ 383	$ 7,967	$ 8,070	$ 159	$ 7,911

The composite rate of amortization was 2.7 per cent during 2002 (2.5 per cent during 2001).

5. NOTE PAYABLE TO PARENT

	2002		2001	
	(thousands)			
Maturity Date	Principal Outstanding (thousands)	Fixed Interest Rate (per cent)	Principal Outstanding (thousands)	Fixed Interest Rate (per cent)
September 5, 2031	$ 2,000	6.4	$ 2,000	6.4
Unamortized premium	45		46	
	2,045		2,046	
Less sinking fund equity	(20)		-	
	2,025		2,046	
Less due within one year	(20)		-	
	$ 2,005		$ 2,046	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund to SaskEnergy Incorporated, the Corporation is required to (on an annual basis) invest an amount equal to one per cent of the related outstanding debt. These investments are referred to as sinking funds. These sinking funds are held by SaskEnergy Incorporated.

b. Sinking fund installments

Sinking fund installments are due in each of the next five years as follows: (thousands)

2003	2004	2005	2006	2007
$ 20	$ 20	$ 20	$ 20	$ 20

c. Interest expense

Interest expense was as follows:

	2002	2001
	(thousands)	
Interest on note payable to parent	$ 128	$ 7
Interest on bank indebtedness	11	89
Interest capitalized	-	(23)
	$ 139	$ 73

Cash interest paid during 2002 on note payable to parent was $128 thousand (2001 - $ nil).

6. CAPITAL CONTRIBUTIONS

Capital contributions have been committed from federal, provincial and municipal agencies to assist in the funding of the Swan Valley gasification project. In addition, customers are assessed a capital contribution for installation of natural gas service. Capital contributions were as follows:

	2002	2001
	(thousands)	
Opening Balance	$ 5,855	$ 4,564
Contributions received		
Governments of Canada and Manitoba	88	1,066
Customers	90	318
Contributions amortized	(152)	(93)
Balance end of year	$ 5,881	$ 5,855

7. SHARE CAPITAL

Authorized share capital consists of an unlimited number of common shares without nominal or par value. One hundred (100) shares (2001 – 100) are issued and outstanding.

8. NET CHANGE IN NON-CASH WORKING CAPITAL

	2002	2001
	(thousands)	
Accounts receivable	$ 631	$ 1,350
Accounts payable	122	(2,945)
Purchase gas variance account	(87)	14
	$ 666	$ (1,581)

9. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Note payable to parent	$ 2,045	$ 2,170	$ 2,046	$ 2,049
Sinking fund equity	$ 20	$ 21	$ -	$ -

The fair value of the above financial instrument was based on the present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

The carrying values of other financial instruments (accounts receivable, accounts payable, intercompany accounts receivable, intercompany accounts payable and bank indebtedness) approximate fair value.

b. Credit risk

The Corporation provides credit to its customers in the normal course of business. During 2002, the Corporation had one non-related customer from which it earned approximately seventy per cent of its revenue (2001 – eighty per cent). There were no credit losses in 2002.

10. RELATED PARTY TRANSACTIONS

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms except for a transportation contract with Many Islands Pipelines (Canada) Limited (MIPL). In recognition of the delayed start up and capacity utilization, The Corporation entered into an agreement with MIPL whereby the Corporation would receive a reduced transport charge for the 2001 and 2002 fiscal years. The amount of this reduction is $135 thousand (2001 - $129 thousand).

Transactions with SEI and its subsidiaries were as follows:

	2002	2001
	(thousands)	
Natural gas commodity purchases	$ 445	$ 27
Transportation expense	327	327
Interest expense	128	7
Operating and maintenance expenses	80	123

SASKATCHEWAN FIRST CALL CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2002

Deloitte
& Touche

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Deloitte
& Touche

Auditors' Report

To the Shareholder of Saskatchewan First Call Corporation

We have audited the statement of financial position of Saskatchewan First Call Corporation as at December 31, 2002 and the statement of cash flows for the period then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and its cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Canada
February 4, 2003

SASKATCHEWAN FIRST CALL CORPORATION

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	Note	2002 (thousands)
ASSETS		
CURRENT ASSETS		
Cash		$ 1
PROPERTY, PLANT AND EQUIPMENT	3	97
		$ 98
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES		
Intercompany accounts payable		$ 97
SHAREHOLDER'S EQUITY		
Share capital	4	1
		$ 98

(See accompanying notes)

On behalf of the Board:

M Simm, Director

Emmett Hardy, Director

SASKATCHEWAN FIRST CALL CORPORATION

STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED DECEMBER 31

	Note	2002 (thousands)
FINANCING ACTIVITIES		
Share capital issued	4	$ 1
Cash provided by financing activities		1
INCREASE IN CASH during period		1
CASH POSITION, beginning of period		-
CASH POSITION, end of period		$ 1

(See accompanying notes)

SASKATCHEWAN FIRST CALL CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

1. STATUS OF THE CORPORATION

Saskatchewan First Call Corporation (First Call) was created on April 5, 2002 under **The Saskatchewan Business Corporations Act**. First Call is a wholly owned subsidiary of SaskEnergy Incorporated (SEI), a Saskatchewan provincial Crown corporation, and therefore First Call is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SEI.

The Corporation has established a database for the location of certain oil, gas and other pipeline systems. Primarily for safety reasons, First Call provides this service whereby landowners and other stakeholders may contact First Call to determine the location of pipeline facilities.

The Corporation will recover its costs of operation from the pipeline companies participating in this locating service. First Call will commence operations on January 1, 2003.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policies are considered to be significant:

a. Property, plant and equipment

Property, plant and equipment is recorded at cost and includes all direct costs plus overhead charges and allowance for interest costs related to financing construction of the related assets.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows (in per cent):

Computers	
- Hardware	33.3
- Software	20.0

3. PROPERTY, PLANT AND EQUIPMENT

	2002 (thousands)		
	Cost	Accumulated Amortization	Net Book Value
Computer Systems	$ 97	$ -	$ 97

The Corporation will begin amortization of these assets when operations commence.

4. SHARE CAPITAL

Authorized share capital consists of an unlimited number of Class A voting common shares without nominal or par value. One hundred (100) shares are issued and outstanding and were issued for cash during the period.

5. STATEMENT OF EARNINGS

As the Corporation has not incurred any revenue or expense transactions for the period ended December 31, 2002, a statement of earnings has not been presented.

SASKENERGY INTERNATIONAL INCORPORATED

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002

Deloitte
& Touche

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Auditors' Report

To the Shareholder of SaskEnergy International Incorporated

We have audited the consolidated statement of financial position of SaskEnergy International Incorporated as at December 31, 2002 and the consolidated statements of loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Canada
February 4, 2003

SASKENERGY INTERNATIONAL INCORPORATED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	Note	2002	2001
		(thousands)	
ASSETS			
CURRENT ASSETS			
Intercompany accounts receivable		$ 94	$ -
Accounts receivable		82	24
		176	24
LONG-TERM INVESTMENT	3	15,832	12,832
		$ 16,008	$ 12,856
LIABILITIES AND SHAREHOLDER'S EQUITY			
CURRENT LIABILITIES			
Bank indebtedness		$ 4,410	$ 3,319
Accounts payable		133	108
Intercompany accounts payable		-	74
TOTAL LIABILITIES		4,543	3,501
SHAREHOLDER'S EQUITY			
Share capital	4	16,321	12,603
Foreign currency translation adjustment		(740)	-
Deficit		(4,116)	(3,248)
		11,465	9,355
		$ 16,008	$ 12,856
COMMITMENTS	9		

(See accompanying notes)

On behalf of the Board:

M Simm, Director

Kenneth Hendy, Director

SASKENERGY INTERNATIONAL INCORPORATED

CONSOLIDATED STATEMENT OF LOSS AND DEFICIT

FOR THE YEAR ENDED DECEMBER 31

	Note	2002	2001
		(thousands)	
REVENUE			
Consulting services		$ 31	$ 166
EXPENSES			
Operating		787	819
Interest	5	98	123
Total expenses		885	942
Loss before the following		(854)	(776)
Share of loss on equity investment		(14)	-
Loss		(868)	(776)
Deficit, beginning of year		(3,248)	(2,472)
Deficit, end of year		$ (4,116)	$ (3,248)

(See accompanying notes)

SASKENERGY INTERNATIONAL INCORPORATED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

	Note	2002	2001
		(thousands)	
OPERATING ACTIVITIES			
Loss		$ (868)	$ (776)
Add item not requiring an outlay of cash Share of loss on equity investment		14	
Net change in non-cash working capital related to operations	6	(201)	109
Cash used in operating activities		(1,055)	(667)
INVESTING ACTIVITIES			
Increase in investments		(3,754)	(5,368)
FINANCING ACTIVITIES			
Increase in bank indebtedness		1,091	809
Increase in share capital		3,718	5,226
Cash provided by financing activities		4,809	6,035
INCREASE IN CASH, during year		-	-
CASH, beginning of year		-	-
CASH, end of year		$ -	$ -

(See accompanying notes)

SASKENERGY INTERNATIONAL INCORPORATED

NOTES TO CONSOLDIATED FINANCIAL STATEMENTS

DECEMBER 31, 2002

1. STATUS OF THE CORPORATION

SaskEnergy International Incorporated (SEII), formerly Many Islands Natural Gas (Canada) Limited, was incorporated under the **Canada Business Corporations Act** on February 17, 1981 and commenced international operations on March 1, 1996. SEII is a wholly owned subsidiary of SaskEnergy Incorporated (SEI), a Saskatchewan provincial Crown corporation.

As the Corporation is a wholly owned subsidiary of a Saskatchewan provincial Crown corporation, the Corporation is not subject to Federal or Provincial income taxes in Canada.

The Corporation is dependent upon the financial support of SaskEnergy Incorporated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policies are considered to be significant:

a. Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, SaskEnergy Chilean Holdings I Ltd., SaskEnergy Chilean Holdings II Ltd. and these subsidiaries combined 100 per cent interest in SaskEnergy Chilean Holdings Limitada, a Chilean limited partnership, and SaskEnergy Mexican Holdings Ltd.

b. Long-term investments

The Corporation accounts for its investments in Gas Sur S.A. and Igasamex USA Ltd. using the equity method and the cost method respectively.

c. Foreign currency translation adjustment

The Corporation's foreign investment in Chile is self-sustaining and the financial statements are translated from Chilean pesos into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the Chilean peso and the Canadian dollar are reflected in the foreign currency translation adjustment in Shareholder's Equity.

d. Employees' future benefits

The cost of future retirement allowance benefits earned by employees is actuarially determined using the projected benefit method and management's best estimates. Past service costs are amortized on a straight-line basis over the average remaining service period of active employees.

e. Revenue recognition

Revenue for consulting services is earned as services are performed.

3. LONG-TERM INVESTMENTS

Long-term investments are as follows:

Investee	Per cent Ownership	2002	2001
		(thousands)	
Gas Sur S.A.	30	$ 11,986	$ 12,740
Igasamex USA Ltd.	12.4	3,846	92
Total long-term investments		$ 15,832	$ 12,832

a. Gas Sur S.A

Under authority of Order-in-Council 735/1998 dated December 9, 1998, the Corporation purchased a 15 per cent equity interest in Gas Sur S.A., a Chilean natural gas distribution company. On December 14, 2001, under authority of Order-in-Council 825/2001 dated November 13, 2001, the Corporation increased its equity interest in Gas Sur S.A. to 30 per cent. The total amount invested was $12,740 thousand as at December 31, 2002 ($12,740 thousand – December 31, 2001).

The Corporation's share of the foreign currency translation adjustment for 2002 resulted in a $740 thousand reduction in the balance of the investment in Gas Sur S.A. The Corporation's 30 per cent share of Gas Sur S.A.'s 2002 loss was $14 thousand.

The cost of the investment exceeds the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately $5,100 thousand and is not being amortized.

b. Igasamex USA Ltd.

Under authority of Order-in-Council 879/2001 dated December 5, 2001, the Corporation purchased a 12.4 per cent equity interest in Igasamex USA Ltd. a limited liability partnership registered in the United States. The equity interest is held through general partnership and limited partnership units. Igasamex USA Ltd. owns a 100 per cent voting interest in Integrated Gas Services de Mexico, S. de R.L. de C.V., a corporation that provides natural gas transmission services to Mexico's industrial sector.

The Corporation paid $3,846 thousand for its equity interest in Igasamex USA Ltd. The Order-in-Council limits the investment to a maximum of $12,000 thousand United States dollars.

4. SHARE CAPITAL

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. Issued share capital is as follows:

	Shares	2002	2001
		(thousands)	
Balance beginning of year	1,260,282.7	$ 12,603	$ 7,377
Issued during the year for cash	371,772.9	3,718	5,226
Balance end of year	1,632,055.6	$ 16,321	$ 12,603

5. INTEREST EXPENSE

During the year, the Corporation made cash payments for interest on bank indebtedness to the parent of $66 thousand (2001 - $127 thousand).

6. NET CHANGE IN NON-CASH WORKING CAPITAL

	2002	2001
	(thousands)	
Accounts payable	$ 25	$ 59
Accounts receivable	(58)	145
Intercompany accounts payable	(74)	(95)
Intercompany accounts receivable	(94)	-
	$ (201)	$ 109

7. FINANCIAL INSTRUMENTS

The carrying values of the Corporation's financial instruments (accounts receivable, intercompany accounts receivable, bank indebtedness, accounts payable and intercompany accounts payable) approximate fair value.

8. RELATED PARTY TRANSACTIONS

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Transactions with SEI and its subsidiaries were as follows:

	2002	2001
	(thousands)	
Operating expenses	$ 97	$ 148
Interest expense	$ 98	$ 123

These items have been recorded at their exchange amounts.

9. COMMITMENTS

The Corporation, through its subsidiary SaskEnergy Mexican Holdings Limited, has posted a $932.6 thousand United States Dollars letter of credit in favour of Bank One, NA, a United States bank. The letter of credit was used as collateral for the Corporation's share of a line of credit Bank One, NA has granted to Igasamex Bajio, S. de R.L. de C.V., a wholly owned subsidiary of Integrated Gas Services de Mexico, S. de R.L. de C.V. Bank One, N.A. may draw upon this letter of credit if Igasamex defaults under the terms of its loan agreement with Bank One, NA.

10. PENSION PLANS

Substantially all employees of the corporation are members of either a defined contribution or a defined benefit pension plan.

In accordance with the terms of the defined contribution plan (Public Employees Pension Plan) and the defined benefit pension plan (Power Corporation Superannuation Plan), the Corporation's obligations are limited to making regular payments to the plans to approximately match contributions made by the employees for current services. During the year, the corporation contributed $7 thousand (2001 - $7 thousand) on behalf of employees for current services.

SASKENERGY CHILEAN HOLDINGS I LTD.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002

Deloitte
& Touche

Deloitte & Touche LLP
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Regina SK S4P 3Z8

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& Touche

Auditors' Report

To the Shareholder of SaskEnergy Chilean Holdings I Ltd.

We have audited the consolidated statement of financial position of SaskEnergy Chilean Holdings I Ltd. as at December 31, 2002 and the consolidated statements of loss and deficit and of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Canada
February 4, 2003

SASKENERGY CHILEAN HOLDINGS I LTD.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	Note	2002	2001
		(thousands)	
ASSETS			
CASH		$ 2	$ 2
LONG-TERM INVESTMENT	3	11,848	12,602
		$ 11,850	$ 12,604
LIABILITIES AND SHAREHOLDER'S EQUITY			
INTERCOMPANY ACCOUNTS PAYABLE		$ 2	$ 2
MINORITY INTEREST	3	12	12
SHAREHOLDER'S EQUITY			
Share capital	4	12,590	12,590
Foreign currency translation adjustment		(740)	-
Deficit		(14)	-
		11,836	12,590
		$ 11,850	$ 12,604

(See accompanying notes)

On behalf of the Board:

_____, Director

_____, Director

SASKENERGY CHILEAN HOLDINGS I LTD.

CONSOLIDATED STATEMENT OF LOSS AND DEFICIT

FOR THE YEAR ENDED DECEMBER 31

	Note	2002	2001
		(thousands)	
Share of loss on equity investment	3	$ (14)	$ -
Loss		(14)	-
Deficit, beginning of year		-	-
Deficit, end of year		$ (14)	$ -

(See accompanying notes)

SASKENERGY CHILEAN HOLDINGS I LTD.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

	2002	2001
	(thousands)	
OPERATING ACTIVITIES		
Loss	$ (14)	$ -
Add item not requiring an outlay of cash Share of loss on equity investment	14	-
Cash provided by operating activities	-	-
FINANCING ACTIVITIES		
Proceeds from share issues	-	5,221
Minority interest	-	5
Increase in intercompany accounts payable	-	2
Cash provided by financing activities	-	5,228
INVESTING ACTIVITIES		
Increase in long-term investment	-	(5,255)
DECREASE IN CASH during year	-	(27)
CASH POSITION, beginning of year	2	29
CASH POSITION, end of year	$ 2	$ 2

(See accompanying notes)

SASKENERGY CHILEAN HOLDINGS I LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002

1. STATUS OF THE CORPORATION

SaskEnergy Chilean Holdings I Ltd. was created on August 27, 1996 under the **Canada Business Corporations Act**. The Corporation is a wholly owned subsidiary of SaskEnergy International Incorporated. SaskEnergy International Incorporated is a wholly-owned subsidiary of SaskEnergy Incorporated, a Saskatchewan provincial Crown corporation, and therefore SaskEnergy Chilean Holdings I Ltd. is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by the Board of Directors and the management of SaskEnergy International Incorporated's parent, SaskEnergy Incorporated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policies are considered to be significant:

The consolidated financial statements include the accounts of the Corporation and a Chilean limited partnership, SaskEnergy Chilean Holdings Limitada (99.9 per cent ownership interest).

a. Long-term investment

The Corporation accounts for its investment in Gas Sur S.A. using the equity method.

b. Foreign currency translation adjustment

The Corporation's foreign investment is self-sustaining and the financial statements are translated from Chilean pesos into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the Chilean peso and the Canadian dollar are reflected in the foreign currency translation adjustment in Shareholder's Equity.

3. LONG-TERM INVESTMENT

a. Long-term investment

Under authority of Order-in-Council 735/1998 dated December 9, 1998, the Corporation purchased a 15 per cent equity interest in Gas Sur S.A., a Chilean natural gas distribution company. On December 14, 2001, under authority of Order-in-Council 825/2001 dated November 13, 2001, the Corporation increased its equity interest in Gas Sur S.A. to 30 per cent. The total amount invested was $12,602 thousand as at December 31, 2002 ($12,602 thousand – December 31, 2001).

As at December 31, the investment in Gas Sur S.A. was as follows:

	2002	2001
	(thousands)	
Gas Sur S.A. investment	$ 12,602	$ 12,602
Share of foreign currency translation adjustment	(740)	-
Share of loss on equity investment	(14)	-
Total long-term investment	$ 11,848	$ 12,602

The cost of the investment exceeded the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately $5,100 thousand and is not being amortized.

b. Minority interest

The minority interest of 0.1 per cent of SaskEnergy Chilean Holdings Limitada is owned by an affiliated company, SaskEnergy Chilean Holdings II Ltd.

4. SHARE CAPITAL

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. Issued share capital is as follows:

	Shares	2002	2001
		(thousands)	
Opening balance	1,258,923.5	$ 12,590	$ 7,369
Issued during the year for cash	-	-	5,221
Closing balance	1,258,923.5	$ 12,590	$ 12,590

5. FINANCIAL INSTRUMENTS

The carrying values of the Corporation's financial instruments (cash and intercompany accounts payable) approximate fair value.

SASKENERGY CHILEAN HOLDINGS II LTD.

FINANCIAL STATEMENTS

DECEMBER 31, 2002

Deloitte & Touche

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900 – 2103 11th Ave
Regina SK S4P 3Z8

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Deloitte
& Touche

Auditors' Report

To the Shareholder of SaskEnergy Chilean Holdings II Ltd.

We have audited the statement of financial position of SaskEnergy Chilean Holdings II Ltd. as at December 31, 2002 and the statement of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Canada
February 4, 2003

SASKENERGY CHILEAN HOLDINGS II LTD.

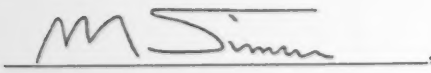
STATEMENT OF FINANCIAL POSITION

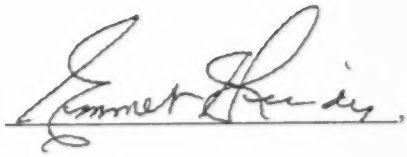
AS AT DECEMBER 31

	Note	2002	2001
		(thousands)	
ASSETS			
LONG-TERM INVESTMENT	3	$ 12	$ 12
SHAREHOLDER'S EQUITY			
SHARE CAPITAL	4	$ 12	$ 12

(See accompanying notes)

On behalf of the Board:

 , Director

 , Director

SASKENERGY CHILEAN HOLDINGS II LTD.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

	2002	2001
	(thousands)	
FINANCING ACTIVITIES		
Proceeds from share issues	$ -	$ 5
INVESTING ACTIVITIES		
Increase in long-term investment	-	(5)
CHANGE IN CASH during year	-	-
CASH POSITION, beginning of year	-	-
CASH POSITION, end of year	$ -	$ -

(See accompanying notes)

SASKENERGY CHILEAN HOLDINGS II LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

1. STATUS OF THE CORPORATION

SaskEnergy Chilean Holdings II Ltd. was created on June 4, 1997 under the **Canada Business Corporations Act**. The Corporation is a wholly owned subsidiary of SaskEnergy International Incorporated. SaskEnergy International Incorporated is a wholly-owned subsidiary of a Saskatchewan provincial Crown corporation, and therefore SaskEnergy Chilean Holdings II Ltd. is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by the Board of Directors and the management of SaskEnergy International Incorporated's parent, SaskEnergy Incorporated.

During the year the Corporation had no revenue and expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policy is considered to be significant:

Long-term investment

The Corporation accounts for its investment in SaskEnergy Chilean Holdings Limitada (SCHL) by the cost method (0.1 per cent ownership interest as at December 31, 2002 and December 31, 2001).

3. LONG-TERM INVESTMENT

Under authority of Order-in-Council 735/1998 dated December 9, 1998, the Corporation purchased a 15 per cent equity interest in Gas Sur S.A., a Chilean natural gas distribution company. On December 14, 2001, under authority of Order-in-Council 825/2001 dated November 13, 2001, the Corporation increased its equity interest in Gas Sur S.A. to 30 per cent. The total amount invested was $12,602 thousand as at December 31, 2002 ($12,602 thousand – December 31, 2001).

The Corporation holds a 0.1 per cent interest in SCHL with an affiliate holding the remaining interest. The cost of the Corporation's investment in SCHL is $12.6 thousand as at December 31, 2002 ($12.6 thousand as at December 31, 2001).

4. SHARE CAPITAL

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. Share capital is as follows:

	Shares	2002	2001
		(thousands)	
Opening balance	1,261.2	$ 12	$ 7
Issued during the year for cash	-	-	5
Closing balance	1,261.2	$ 12	$ 12

5. STATEMENT OF EARNINGS

As the Corporation has not incurred any revenue or expense transactions for the year ended December 31, 2002, a statement of earnings has not been presented.

SASKENERGY CHILEAN HOLDINGS LIMITADA

FINANCIAL STATEMENTS

DECEMBER 31, 2002

Deloitte & Touche

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Deloitte & Touche

Auditors' Report

To the Partners of SaskEnergy Chilean Holdings Limitada

We have audited the statement of financial position of SaskEnergy Chilean Holdings Limitada as at December 31, 2002 and the statement of loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the limited partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the limited partnership as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Canada
February 4, 2003

Deloitte Touche Tohmatsu

SASKENERGY CHILEAN HOLDINGS LIMITADA

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	Note	2002	2001
		(thousands)	
ASSETS			
LONG-TERM INVESTMENT	3	$ 11,848	$ 12,602
PARTNERSHIP EQUITY			
PARTNERSHIP CONTRIBUTIONS	4	12,602	12,602
DEFICIT	4	(14)	-
FOREIGN CURRENCY TRANSLATION ADJUSTMENT	4	(740)	-
		11,848	12,602
		$ 11,848	$ 12,602
COMMITMENTS	5		

(See accompanying notes)

On behalf of the Board:

M Simm, Director

Emmett Hendy, Director

SASKENERGY CHILEAN HOLDINGS LIMITADA

STATEMENT OF LOSS AND DEFICIT

FOR THE YEAR ENDED DECEMBER 31

	2002	2001
	(thousands)	
OPERATIONS		
Share of loss on equity investment	$ (14)	$ -
Loss and deficit	(14)	-

(See accompanying notes)

SASKENERGY CHILEAN HOLDINGS LIMITADA

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

	2002	2001
	(thousands)	
OPERATING ACTIVITIES		
Loss	$ (14)	$ -
Add item not requiring an outlay of cash Share of loss on equity investment	14	-
Cash provided by operating activities	-	-
FINANCING ACTIVITIES		
Equity contributions from partners	-	5,226
INVESTING ACTIVITIES		
Increase in long-term investment	-	(5,255)
DECREASE IN CASH during year	-	(29)
CASH POSITION, beginning of year	-	29
CASH POSITION, end of year	$ -	$ -

(See accompanying notes)

SASKENERGY CHILEAN HOLDINGS LIMITADA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

1. STATUS OF THE LIMITED PARTNERSHIP

SaskEnergy Chilean Holdings Limitada was established on December 16, 1998 as a Chilean limited partnership owned by two Canadian corporations – SaskEnergy Chilean Holdings I Ltd. and SaskEnergy Chilean Holdings II Ltd. The Canadian corporations are wholly owned subsidiaries of SaskEnergy International Incorporated, which in turn is wholly owned by a Saskatchewan provincial Crown corporation – SaskEnergy Incorporated.

SaskEnergy Chilean Holdings I Ltd. and SaskEnergy Chilean Holdings II Ltd. have 99.9 per cent and 0.1 per cent respective ownership interests in the limited partnership.

The affairs of the limited partnership are managed by the Board of Directors and the management of SaskEnergy International Incorporated's parent, SaskEnergy Incorporated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policies are considered to be significant:

a. Long-term investment

The limited partnership accounts for its investment in Gas Sur S.A. by the equity method.

b. Foreign currency translation adjustment

The Limited Partnership's foreign investment is self-sustaining and the financial statements are translated from Chilean pesos to Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the Chilean peso and the Canadian dollar are reflected as a foreign currency translation adjustment in Partnership Equity.

3. LONG-TERM INVESTMENT

Under authority of Order-in-Council 735/1998 dated December 9, 1998, the Corporation purchased a 15 per cent equity interest in Gas Sur S.A., a Chilean natural gas distribution company. On December 14, 2001, under authority of Order-in-Council 825/2001 dated November 13, 2001, the Corporation increased its equity interest in Gas Sur S.A. to 30 per cent. The total amount invested was $12,602 thousand as at December 31, 2002 ($12,602 thousand – December 31, 2001).

As at December 31, the investment in Gas Sur S.A. was as follows:

	2002	2001
	(thousands)	
Gas Sur S.A. investment	$ 12,602	$ 12,602
Share of foreign currency translation adjustment	(740)	-
Share of loss on equity investment	(14)	-
Total long-term investment	$ 11,848	$ 12,602

The cost of the investment exceeds SaskEnergy Chilean Holdings Limitada's underlying share of the net book value of Gas Sur S.A. by approximately $5.1 million and is not being amortized.

4. PARTNERSHIP EQUITY

	SaskEnergy Chilean Holdings I Ltd. 99.9%	SaskEnergy Chilean Holdings II Ltd. 0.1%	2002	2001
		(thousands)		
Partnership equity, beginning of year	$ 12,590	$ 12	$12,602	$ 7,376
Loss	(14)	-	(14)	-
Foreign currency translation adjustment	(739)	(1)	(740)	-
Contributions from partners	-	-	-	5,226
Partnership equity, end of year	$11,837	$ 11	$11,848	$12,602

5. COMMITMENTS

SaskEnergy Incorporated has provided a guarantee in the amount up to $5,000 thousand United States dollars (USD) as assurance that SaskEnergy Chilean Holdings Limitada performs its obligations under the Gas Sur S. A. Shareholders' Agreement.

SASKENERGY MEXICAN HOLDINGS LTD.
FINANCIAL STATEMENTS
DECEMBER 31, 2002

Deloitte
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Auditors' Report

To the Shareholder of SaskEnergy Mexican Holdings Ltd.

We have audited the statement of financial position of SaskEnergy Mexican Holdings Ltd. as at December 31, 2002 and the statement of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Canada
February 4, 2003

SASKENERGY MEXICAN HOLDINGS LTD.

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	Note	2002 (thousands)
ASSETS		
INTERCOMPANY ACCOUNTS RECEIVABLE		$ 8
LONG-TERM INVESTMENT	3	3,718
		$ 3,726
LIABILITIES AND SHAREHOLDER'S EQUITY		
BANK INDEBTEDNESS		$ 8
SHAREHOLDER'S EQUITY		
Share capital	4	3,718
		$ 3,726
COMMITMENTS	6	

(See accompanying notes)

On behalf of the Board:

_____, Director _____, Director

SASKENERGY MEXICAN HOLDINGS LTD.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

	Note	2002 (thousands)
FINANCING ACTIVITIES		
Proceeds from share issues	4	$ 3,718
Increase in intercompany accounts receivable		(8)
Cash provided by financing activities		3,710
INVESTING ACTIVITIES		
Increase in long-term investment		(3,718)
INCREASE IN BANK INDEBTEDNESS during year		(8)
BANK INDEBTEDNESS, beginning of year		-
BANK INDEBTEDNESS, end of year		$ (8)

(See accompanying notes)

SASKENERGY MEXICAN HOLDINGS LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

1. STATUS OF THE CORPORATION

SaskEnergy Mexican Holdings Ltd. (SEMHL) was incorporated on November 15, 2001 under the **Canada Business Corporations Act**. The Corporation was inactive from November 15, 2001 to December, 31, 2001. SEMHL is a wholly owned subsidiary of SaskEnergy International Incorporated. SaskEnergy International Incorporated's parent, SaskEnergy Incorporated is a Saskatchewan provincial Crown corporation, and therefore SEMHL is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by the Board of Directors and the management of SaskEnergy International Incorporated's parent, SaskEnergy Incorporated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policy is considered to be significant:

Long-term investment

The Corporation accounts for its investment in Igasamex USA Ltd. using the cost method.

3. LONG-TERM INVESTMENT

a. Igasamex USA Ltd.

Under authority of Order-in-Council 879/2001 dated December 5, 2001, the Corporation purchased a 12.4 per cent equity interest in Igasamex USA Ltd. a limited liability partnership registered in the United States. The equity interest is held through general partnership and limited partnership units. Igasamex USA Ltd. owns a 100 per cent voting interest in Integrated Gas Services de Mexico, S. de R.L. de C.V., a corporation that provides natural gas transmission services to Mexico's industrial sector.

The Corporation paid $3,718 thousand for its equity interest in Igasamex USA Ltd. The Order-in-Council limits the investment to a maximum of $12,000 thousand United States dollars.

4. SHARE CAPITAL

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. Issued share capital is as follows:

	Shares	2002 (thousands)
Opening Balance	-	$ -
Issued during the year for cash	371,772.9	3,718
	371,772.9	$ 3,718

5. FINANCIAL INSTRUMENTS

The carrying values of the Corporation's financial instruments (intercompany accounts receivable and bank indebtedness) approximate fair value.

6. COMMITMENTS

SEII, through its subsidiary SaskEnergy Mexican Holdings Limited, has posted a $933 thousand United States Dollars letter of credit in favour of Bank One, N.A., a United States bank. The letter of credit was used as collateral for SEII's share of a line of credit Bank One, N.A. has granted to Igasamex Bajio, S. de R.L. de C.V., a wholly owned subsidiary of Integrated Gas Services de Mexico, S. de R.L. de C.V. Bank One, N.A. may draw upon this letter of credit if Igasamex defaults under the terms of its loan agreement with Bank One, N.A.

7. STATEMENT OF EARNINGS

As the Corporation has not incurred any revenue or expense transactions for the year ended December 31, 2002, a statement of earnings has not been presented.

6019021 CANADA INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002

Deloitte
& Touche

Deloitte & Touche LLP
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Deloitte
& Touche

Auditors' Report

To the Shareholder of 6019021 Canada Inc.

We have audited the consolidated statement of financial position of 6019021 Canada Inc. as at December 31, 2002 and the consolidated statement of cash flows for the period then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial consolidated statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and its cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Canada
February 4, 2003

6019021 CANADA INC.

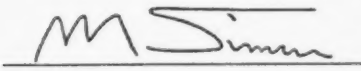
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

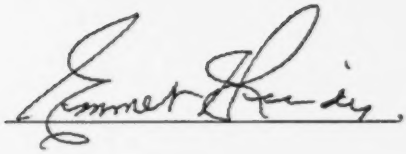
AS AT DECEMBER 31

	Note	2002
ASSETS		
Cash		$ 502
SHAREHOLDER'S EQUITY		
Share capital	4	$ 502

(See accompanying notes)

On behalf of the Board:

 , Director

 , Director

6019021 CANADA INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD SEPTEMBER 13 TO DECEMBER 31

	Note	2002
FINANCING ACTIVITIES		
Share capital issued	4	$ 502
CASH POSITION, end of period		$ 502

(See accompanying notes)

6019021 CANADA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002

1. STATUS OF THE CORPORATION

6019021 Canada Inc. was created on September 13, 2002 under **The Canada Business Corporations Act**. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated (SEI), a Saskatchewan provincial Crown Corporation, and therefore the Corporation is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SEI.

The Corporation has made application to Industry Canada to change its name to SaskEnergy Nova Scotia Holdings Ltd.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policies are considered to be significant:

a. Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its 50.1 per cent proportionate share of the accounts of Heritage Gas Limited (Heritage Gas) as at December 31, 2002.

3. HERITAGE GAS LIMITED

Under authority of Order in Council 666/2002 dated September 10, 2002, the Corporation purchased a 50.1 per cent equity interest in Heritage Gas. During 2002, Heritage Gas filed a formal application with the Nova Scotia Utility and Review Board (NSUARB) in the Province of Nova Scotia in order to obtain the natural gas distribution franchise for a certain area of the Province of Nova Scotia. The decision of the NSUARB to award the franchise was pending as at December 31, 2002.

4. SHARE CAPITAL

Authorized share capital consists of an unlimited number of Class A voting common shares without nominal or par value. Five hundred and two shares (502) are issued and outstanding.

5. STATEMENT OF EARNINGS

As the Corporation has not incurred any revenue or expense transactions for the period ended December 31, 2002, a statement of earnings has not been presented.